Innovative Practices in Banking & Insurance Industry

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Insurance industry contributes to the financial sector of an economy and also provides An important social security net in developing countries. The consistent sub-optimal performance of this sector in India from independence through the 1990s has led to different sets of reforms, with each model adopted focusing on distinct competitive strategies. Insurance in India has taken galloping stage. It has shown maximum growth rate of 56.99 % in 2006 in world after Liechtenstein (61.58%).This study identifies the latest development of insurance in India in comparison to abroad & also signifies Various Opportunities and the Challenges with which the sector was reformed in 2000 to conclude that only in the last decade.

INTRODUCTION:

Insurance is defined as a co-operative device to spread the loss caused by the particular risk over a number of persons who are exposed to it & who agree to ensure themselves against that risk. In 2003, the Indian insurance market ranked 19th globally and was the fifth largest in Asia. Although it accounts for only 2.5% of premiums in Asia, it has the potential to become one of the biggest insurance markets in the region. A combination of factors underpins further strong growth in the market, including sound economic fundamentals, rising household wealth and a further improvement in the regulatory framework. The insurance industry in India has come a long way since the time when businesses were tightly regulated and concentrated in the hands of a few public sector insurers. Following the passage of the Insurance Regulatory and Development Authority Act in 1999, India abandoned public sector exclusivity in the insurance industry in favor of market-driven competition. This shift has brought about major changes to the industry. The inauguration of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channels, and the raising of supervisory standards.

By mid-2004, the number of insurers in India had been augmented by the entry of new private sector players to a total of 28, up from five before liberalization. A range of new products had been launched to cater to different segments of the market, while traditional agents were supplemented by other channels including the Internet and bank branches. These developments were instrumental in propelling business growth, in real terms, of 19% in life premiums and 11.1% in non-life premiums between 1999 and 2003.

Table 2.1: Projection of life insurance and non-life insurance premiums, 2004-2014

	Life insurance		Non-life insurance	
	INR m	INR m, constant 2004 prices	INR m	INR m, constant 2004 prices
2004	749 971	749 971	203 856	203 856
2005	871 672	834 136	234 323	224 233
2006	1 025 957	934 358	271 830	247 561
2007	1 201 425	1 042 105	315 522	273 680
2008	1 403 362	1 159 284	368 094	304 074
2009	1 667 814	1 312 134	429 750	338 101
2010	1 983 051	1 485 832	496 953	372 350
2011	2 366 576	1 688 756	572 727	408 690
2012	2 804 561	1 905 996	651 736	442 924
2013	3 326 543	2 153 072	734 778	475 578
2014	3 947 899	2 433 546	828 433	510 659
Average growth rate between 2004-2014	*18.1%*	*12.5%*	*15.1%*	*9.6%*

Source: Swiss Re Economic Research & Consulting.

There are good reasons to expect that the growth momentum can be sustained. In particular, there is huge untapped potential in various segments of the market. While the nation is heavily exposed to natural catastrophes, insurance to mitigate the negative financial consequences of these adverse events is underdeveloped. The same is true for both pension and health insurance, where insurers can play a critical role in bridging demand and supply gaps. Major changes in both national economic policies and insurance regulations will highlight the prospects of these segments going forward

The objectives of this Paper are to explore the current state of development in India's insurance market and enumerate the opportunities and challenges offered by this exciting market. This Paper begins with an overview of the Indian Life insurance market in Section II, which highlights the phenomenal growth experienced recently, in line with the country's improving economic fundamentals. Section III Current Business Environment & Section IV A more detailed dissection of current regulatory issues. Sections V Assessment of life Insurance sectors respectively. Section VI shows comparative analysis of major players in Life insurance industries Developments with far-reaching implications.

LITERATURE REVIEW

This is the summary of the relevant literature related to title insurance that has been published in insurance journals. In reviewing the exiting literature it is interesting to note that the same Concerns about prices and risk that existed in the early literature (e.g. Todd and McEnnally, 1974) continue to be present in today's marketplace. As noted above, one of the purposes of the paper is to extend and update the 1998 Nyce and Boyer study. In that paper, they provide an overview of the title insurance industry and examine major issues of the title insurance industry including financial performance, industry concentration, and title insurance distribution channels. Some of their conclusions are that typical barriers to entry include minimum capital standards and access to title plant and that most of title premium goes to expenses such as title searches and abstracts and not to losses.

Overview of life Insurance industry in India

Life insurance traces its origins in India to the early nineteenth century when companies in India insured the lives of Europeans living here. Eventually these companies began to cover Indians as well but required them to pay higher premiums. Regulations were passed to regulate the Indian insurers (but not the foreign companies providing insurance services in India) and to allow collection of information about insurance companies thus facilitating comparison amongst them. However the legislations became insignificant with time and the government nationalized the sector by combining all the 154 Indian private insurance companies to give birth to one behemoth: the Life Insurance Corporation of India. Through this the Government strived to put an end to prevalent malpractices such as poor servicing standards along with the appalling management of companies wherein funds were simply being divested to all types of securities without any valuation of the borrowers. The Government took over the reins of the industry in its own hands reasoning that insurance was a cooperative enterprise and should be within the purview of the state in order to provide improved services to the public at lower costs. It was also envisioned that the nationalization of this sector would lead to more effective mobilization of funds to enable capital to be allocated to development projects. Besides the charter of freedom also pleaded the control of the state on key industries such as banking and insurance. Thus the industry was transformed from a competitive one to a highly regulated monopoly.

In the last decade of the 20th century India watched history repeat itself. With the Government implementing the New Industrial Policy in 1991, the country underwent a major wave of globalization. Strategic sectors such as the banking and the financial sector were reformed. Time had come for the policymakers to introspect the current policies in the Indian insurance industry as well. Committees on insurance sector reforms followed suit and it was found that India had continued to be one of the least insured countries till the late 20th century. Experts emphasized that customer service, insurance coverage, allocation of resources needed to be improved within the industry. Also more innovative products were needed to suit varied customer needs and to change opinion of people towards insurance, from tax exemption product to a tool for mitigating risks and IIMK IIML *Conference on Global Competition & Competitiveness of Indian Corporate* 561 increasing savings. Thus it was recommended that the industry should be opened up to enhance competition and autonomy be given to insurance companies to improve their performance and enable them to act as independent companies with economic motives. Thus the life insurance industry was liberalized with the aim of increasing contribution to the GDP and to the society.

Growth & Economic Development of Life insurance sector in India

When the life insurance business was nationalized in 1956, there were 154 Indian life insurance companies. In addition, there were 16 non-Indian insurance companies and 75 provident societies also issuing life insurance policies. Most of these policies were centered in the metropolitan areas like Bombay, Calcutta, Delhi and Madras. The life insurance business was nationalized in 1956 with the Life Insurance Corporation of India (LIC) designated the sole provider – its monopolistic status was revoked in 1999.*11 Refer to Table 1.2*. There were several reasons behind the nationalization decision. Firstly, the government wanted to channel more resources to national development programmed. Secondly, it sought to increase insurance market penetration through nationalization. Thirdly, the government found the number of failures of insurance companies to be unacceptable. The government argued that the failures were the result of mismanagement and nationalization would help to better protect policyholders. Thus, the post independence history of life insurance in India is largely the history of the LIC. From the perspective of national economic policy, the LIC has been instrumental in the implementation of monetary policy in India. For example, 52% of the outstanding stock of government securities is held by just two public-sector institutions – V the State Bank of India and the Life Insurance Corporation of India – in approximately equal proportion. The lack of investment channels in India and the cautious approach adopted by the regulator are also factors contributing to the high concentration of insurance assets in government securities. Table 4.2 shows the historical development of LIC's financial data. In nominal terms, during that period the total income of the LIC grew 700-fold. The largest part of payments to policyholders has been through the maturity of policies. This proportion has gone up over time, relative to death benefits. To a certain extent, this reflects the increasing popularity of life insurance products as savings vehicles in lieu of life protection. It can also be discerned that the operating costs (as percentage of premiums) remained high over a sustained period of time, with a decline in the past two decades. Part of this decline has come from the increased sale of group policies which are cheaper to sell per policy than individual life policies.

Table 1.2	**Financial Statement of LIC (in billion of rupees)**					
Income	1957	1963	1972-73	1982-83	1992-93	2008-2009
Total premium income	0.886	1.511	3.897	12.18	179.872	998.22
Income From investment	0.193	0.352	1.366	6.894	42.57	335.6
Including Miscellaneous Income						
Total Income	1.079	1.863	5.263	19.074	222.442	1333.82
Outgo						
Commission etc to agents	0.077	0.141	0.368	1.027	7.726	45.94
Salaries & Other benefits to employees	0.122	0.223	0.581	1.197	7.998	31.62
Other expenses of	0.046	0.079	0.137	0.39	2.56	9.21

management						
Taxes etc			0.002	0.538	4.227	11.36
5% valuation surplus paid to government 0.017					1.054	8.14

Current Business Environment

In the past, the LIC had three commonly sold policies in the market for life insurance: whole life, endowment and money-back policies. The number of new policies sold each year went from about 0.95 million a year in 1957 to 26.97 million in 2003. The total number of in-force policies went from 5.42 million in 1957 to 141 million by March 2003. There are presently several dozen life products offered by the LIC. However, they are small variations on the three products mentioned above. In addition, even though term life policies were available, they were not actively promoted.17 LIC also has several pension products. Following the entry of the private insurers, there was a proliferation of products. According to the Annual Report of the IRDA, 116 life products were offered by life insurance companies in India as of 31 March 2002. Of course, they were not all distinct products. Many products across different companies were very similar, if not identical. Some of the more popular products launched recently include creditor protection products like mortgage life, and unit-linked products.

The Indian insurance industry is currently valued at Rs. 180000 crores ($400 billion) and gross premium collection contributes to roughly 2% of the GDP. The life insurance sector premiums grew at a rate of 41% in the last fiscal (2005-06) to Rs. 35896 crores. Within the sector, Life Insurance Corporation of India continues to be the market leader with the highest premiums collected in FY 06 to the tune of Rs. 25645 crores. LIC is followed by Bajaj Allianz with an 8% market share, ICICI Prudential with a 7.4%, HDFC Standard with a 3% and SBI Life with a market share of 2.5% as shown in Figure 1 below. The private players have a long way to go before they can challenge the largest player in the industry with only single digit
Market shares to boast of. However with almost 30% share of the industry taken away from this external player in a small period of 6 years, LIC has strived towards strengthening its foothold by bringing in innovative products and services upbeat with the new kids on the block. LIC has thus managed to increase its premium income consistently over the past years although its market share has continued to slide downwards.

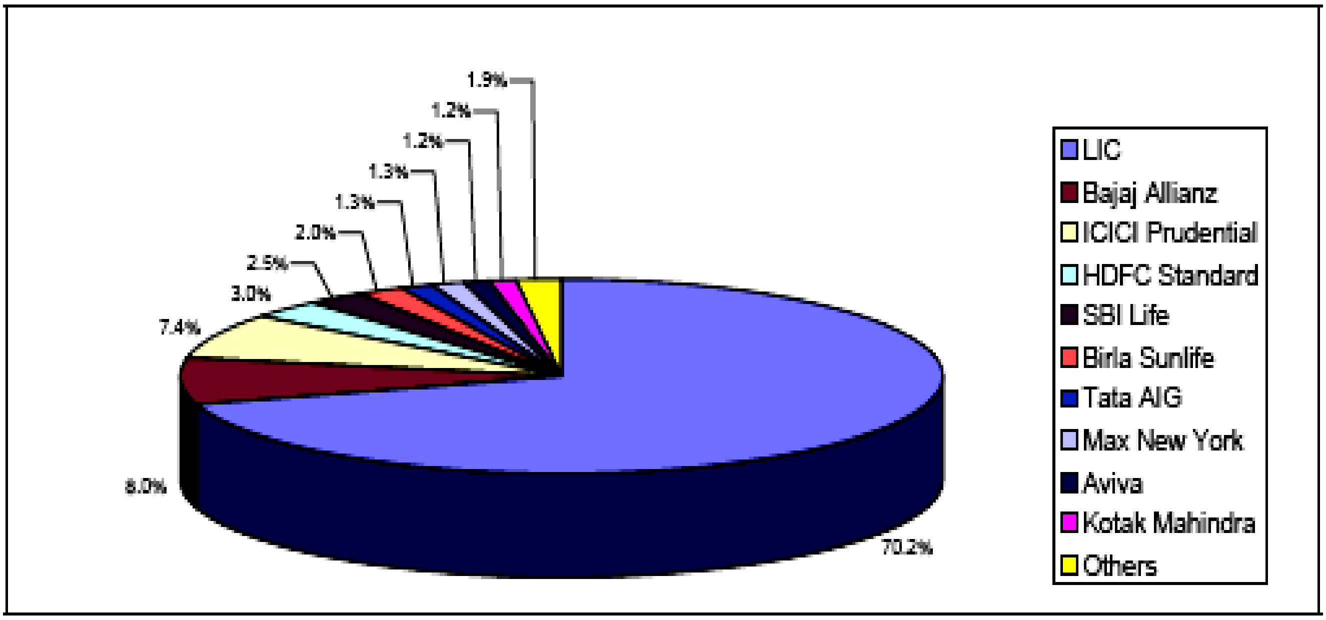

Figure 1
Market share of life insurers in 2005-06, based on first year premiums
Source: Compiled from The Economic Times, Sept 1, 2006

Current Regulatory Reforms

The role of insurance is undergoing a phenomenal change today as is evident from the product Bouquet and the product advertisements. The emphasis lies on insuring oneself and one's close Family members for self-reliance more-so because nuclear families are the emerging trend in the Country today. To meet the varying needs of various individuals, the insurance players have a vast foray of products in their bouquet. Besides this, almost all companies offer the flexibility to Customers to choose the most suitable product for themselves by combining features of a number of products together. Thus the products can be customized to suit the customer as per their needs. With this flexibility, comes the cost of comparing2 all the products (with their riders) across the companies before judiciously investing in one of them. To reach out to the consumers, the companies in the industry today have widened their distribution channels by approaching prospective customers through agents, brokers and banc assurance. With Information Technology revolutionizing the financial sector, another channel has been made available for selling which is the internet. ICICI Prudential offers Instainsurance through which a client can chose an insurance policy in mere 10 minutes. Similarly other players have also been pushing their products through the internet The industry is now open to private players under the Government mandate of a minimum capital requirement of Rs.100 crores, of which a maximum of 26% stake can be held by a foreign partner as equity. For license renewal, each company is required to file an application to IRDA on an annual basis accompanied with a payment fee of 50000/- for each class of insurance business and 20% of the total gross premium written by the insurer in the previous year of operation in India or Rs. 5 crores whichever is less.

IRDA also holds the right to cancel the license of any insurance company if it feels that the company or insurer fails to conduct its business in a manner prejudicial to the interests of the policyholders. To prevent any accidental or uninformed decisions in such circumstances, IRDA appoints an enquiry officer who looks further into the matter before any verdict is taken. So far no life insurance company has been challenged by the authority for violating any of the norms. By not passing the verdict before validating, the Government has tried to keep the interests of the players in mind along with the consumers. IRDA also clearly explains the reasons under which a license can be cancelled. This transparency in the regulatory body proceedings helps to allay the fears of any private enterprise subjected to Government regulations. The insurance players today are expected to invest the funds judiciously with the combined objectives of liquidity, maximization of yield and safety by conferring to the Authority's guidelines on investments. An investment policy has to be submitted to the Authority by an insurer before the start of an accounting year to efficient resource allocation.

With moderate entry barriers prevalent in the industry and minimal Government interference possible, more industrialists and public sector banks are planning to jump into this sector. Also with the recent growth in the per capita income of the country and people becoming more aware of the need for insurance as a protection and investment tool, the sector promises excellent returns for the incumbent 16 players and prospective entrants.

An Assessment of Reforms in the Life Insurance Industry

Objective	Effort	Observation	Assessment
To encourage competition and improve insurance penetration	Low Entry barrier Stipulation of the minimum number of lives to be covered by the private insurers in the rural and the social sector	All companies operating with an equity substantially higher than the requirement Insurers have consistently achieved higher figures than the given targets	Equity requirement significant enough to appease the consumers & low enough to encourage new players The IRDA has successfully encouraged the insurers to concentrate on hereto ignored sectors resulting in improved penetration
Innovation through products which suit customers better	Insurers focusing on improving product range, benefits offered in terms of return, premium payment options	Most insurers allow customers to customize terms of policies as per their needs The bouquet of products comprises Term Insurance, Whole Life, Endowment, Single Premium Product, Annuities, Pensions	The products being offered today are far more innovative and customer oriented
Improve servicing standards in the industry	Insurer to appoint Actuary, after approval of IRDA Eligibility criteria stipulated by IRDA for agent recruitment Insurance Advertisement and Disclosure Regulations formulated Insurance Ombudsman set-up	The actuary appointed to fulfill the eligibility criteria and the insurer not to transact insurance business unless it is so Insurance Training institute to certify an agent for taking 100 hours of training classes. The appointment of the agent is subject to his clearing the exam conducted by Insurance Institute of India Insurers to comply with the Advertisement Code while addressing policy-holders and prospects Twelve such ombudsman centers set up countrywide to address consumer grievances within 3 months	Actuary made responsible for stability and solvency of insurance company, to aid regulator in protecting the interest of the policyholders. The ombudsman is found to be highly functional with improvement in the number of cases resolved annually. Insurers have become selective in recruiting agents; ways exist to forge training certificates without actually undergoing one. Other distribution channels also should have specified minimum eligibility requirements
Efficient allocation of resources by dynamic management of portfolios	An investment policy has to be submitted to the Authority by an insurer before the start of an accounting year IRDA to stipulate the investment of various funds	All insurers' investments found to confirm with regulators stipulations	Improvement the operating, profitability, investment yield, marketing and actuarial efficiency ratios of the insurers over the past years
To bring about a change in consumer outlook		Primary reason for buying insurance policies is not tax savings anymore More consumers approach insurers in periods from December to March	Some change in customer perception is reflected by the promotional schemes offered by insurers today. However insurance still remains a tax saving tool to some extent

Comparative Analysis of Players of Life insurance in India:

The increase in the number of players within the sector also led to the expansion of the product portfolio offered by them. Greater focus began to be laid on not only meeting the customer's need but surpassing his expectations in terms of product range, benefits offered in terms of return, Premium payment options etc. The whole industry is thus moving towards mass customization to develop products which suit the customers' needs perfectly. Pre 2000, the sole Life Insurance player LIC operated as a virtual monopoly and there was little need for it to pay attention to customer needs. The most popular policy or more appropriately the only policy variants available were Pure Protection 'Jeevan Suraksha' policy (with or without the money back guarantee). Endowment policies and Whole Life plans were also in place but the term policies were the largest selling product of LIC

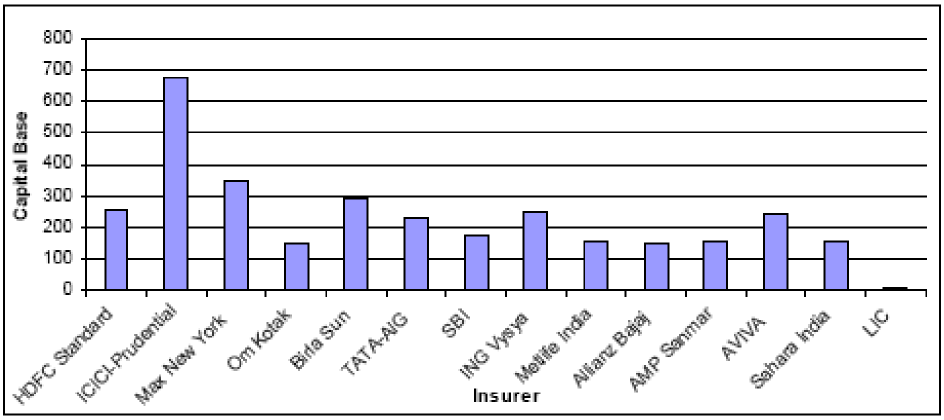

Figure 2
Capital base of life insurers in 2004-05
Source: Compiled from IRDA Annual Report 2003-04

However after liberalization, there has been a change in the mindset which can be understood by observing the product portfolio of the insurers. The innovative products of some of the insurers are stated below in Table. From 2000, there has been a plethora of products ranging from ULIPs5 to Traditional Products which have been used by insurers to capture the market share.

Product Portfolio of Different players in Life Insurance Industry

Product Category	ICICI Prudential	Bajaj	LIC
Endowment	Invest Shield	Unit Gain Plus	Jeevan Mitra
Whole Life	Life Long	Life Time Care	Jeevan Tarang/sathi
Child Plan	Smart Kid	Child Gain	Jeevan Kishore
Pension	Life link Super Pension	Swarna Vishranti	Future Plus
Women	Kanyadaan	Mahila Gain	Jeevan Bharati
Health	Diabetes Care	Health Care	
Rural	ICICI pru Suraksha Kavach	Swarna Jeevan	Jeevan Saral
Term	Life Guard	Swarna Raksha	Amulya Jeevan
Group	Group Superannuation Plan	Group Credit Shield	Gratuity Plus

The expansion in the product bouquet enabled them to capture varying needs of different profiles of customers. To increase the penetration with in other hereto neglected sectors, IRDA has stipulated the minimum number of lives in the rural and the social sector6 that the private insurers must cover depending upon the year of operation of the company. For the government insurers the quantum of insurance business to be done shall not be less than what has been recorded by them for the accounting year ended 31st March, 2000.

For the rural sector, the minimum number of lives that the private insurers must cover is specified as a percentage of the total number of policies written by the firm in the respective years and the percentage gradually increases from the first to the fifth year of its operation.

Policy Issued Percentage with Claims sent to Ombudsman:

Table 4

Percentage of Policies Issued in Rural Sector by Life Insurers in India

Insurer	2001-02		2002-03		2003-04		2004-05	
	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved
Allianz Bajaj	5	18.13	9	16.7	12	12.95	14	15.84
SBI Life	5	4	9	15.48	12	14.03	14	21.92
HDFC Standard	7	4.5	12	12.3	14	19.23	16	20.6
ICICI Prudential	7	7.04	12	12.02	14	14.85	16	16
LIC		16.05		18.52		22.79		22.89

No of Policies Covered in Social Sector life insurance in India

Insurer	2001-02		2002-03		2003-04		2004-05	
	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved
Allianz Bajaj	2500	2528	7500	11111	10000	24052	15000	16355
SBI Life	3958	Nil	7500	37478	10000	80927	15000	1222572
HDFC Standard	7500	7556	10000	10490	15000	17184	20000	28432
ICICI Prudential	7500	7604	10000	17964	15000	15050	20000	20139
LIC		754816	754816	761752	754816	1739722	754816	4212804

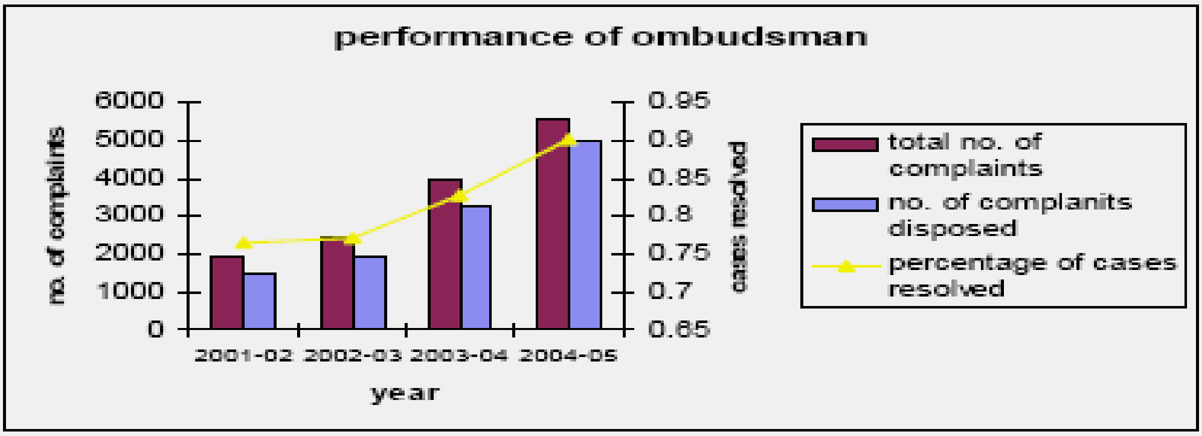

Figure 3 Number of complaints filed and disposed from 2001
Source: Compiled from www.irdaindia.org

Thus looking at the number of lives covered by the insurance players in the social sector, it can be observed that the penetration in the social sector due to these players has increased at a CAGR of 153%. Besides this except SBI Life insurance in 2001-02, at all other times the insurers have not only met their target but have achieved much higher growth. Therefore through liberalization an additional 1468302 lives have been covered by 4 out of the total 15 private insurers in all. This number may seem insignificant considering the total size of the social sector in India nonetheless the effort is in the right direction and has been able to achieve desirable results.

Another important change that the Government wanted to implement with in the sector was to improve the servicing standards prevalent within the industry. A number of initiatives contributed towards achieving the same. For instance the Government mandated that no life insurer could operate without an Actuary and appointed after approval by IRDA. Besides this, to protect the interests of the policy holders the authority has come out with the Insurance Advertisement and Disclosure Regulations which ensure that the insurance companies adhere to fair trade practices and transparent disclosure norms while addressing the policyholders or the prospects. Another step in the same direction was that of ensuring that agents undergo a minimal training of 100 hours of course work before they make sales of insurance policies on behalf of the insurer to consumers. Having taken adequate safeguards to protect stakeholder interests, the government also set up Ombudsman cells to resolve the grievances of the customers. The percentage of cases resolved by this body has increased over the past few years indicating improvement in customer satisfaction

CONCLUSION:

In India life insurance industry is been older by the decade. And in this decade lot many private players are entered with the liberalization which resulted in large scale of mismanagement & Fraudulent Practices .Which resulted in detarrfing in insurance sector. A Major reengineering in the industry has been adopted which brings highly irregulated industry to regulated industry. However other problems have been surfaced like Limited reach, Penetration of enterprise, Detoriating Service standards. A miles stone was achieved when the nation decided to privatize the industry along with the requisite regulations.

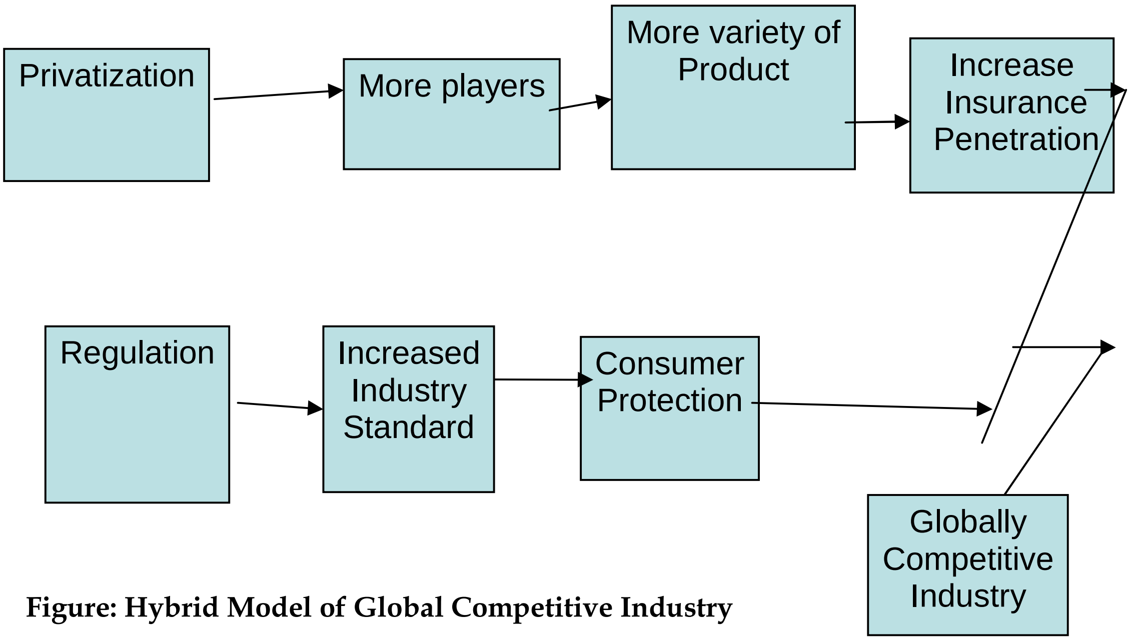

Figure: Hybrid Model of Global Competitive Industry

With this hybrid model, the industry was thus privatized along with market regulation of players who have the necessary financial strength to withstand the demands of a growing and nascent market, the necessity to have 'fit and proper' persons in-charge of businesses, the implementation of a solvency regime that ensures continuous financial stability, and above all, the presence of an adequate number of insurers to provide competition and choice to customers has led to the establishment of a regime committed to an overall development of the market in normal times. Thus the firms, the industry and the nation are healthier than ever before having adopted this Model.

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