

A Paper on Digital Drive in Indian Insurance Industry

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Abstract

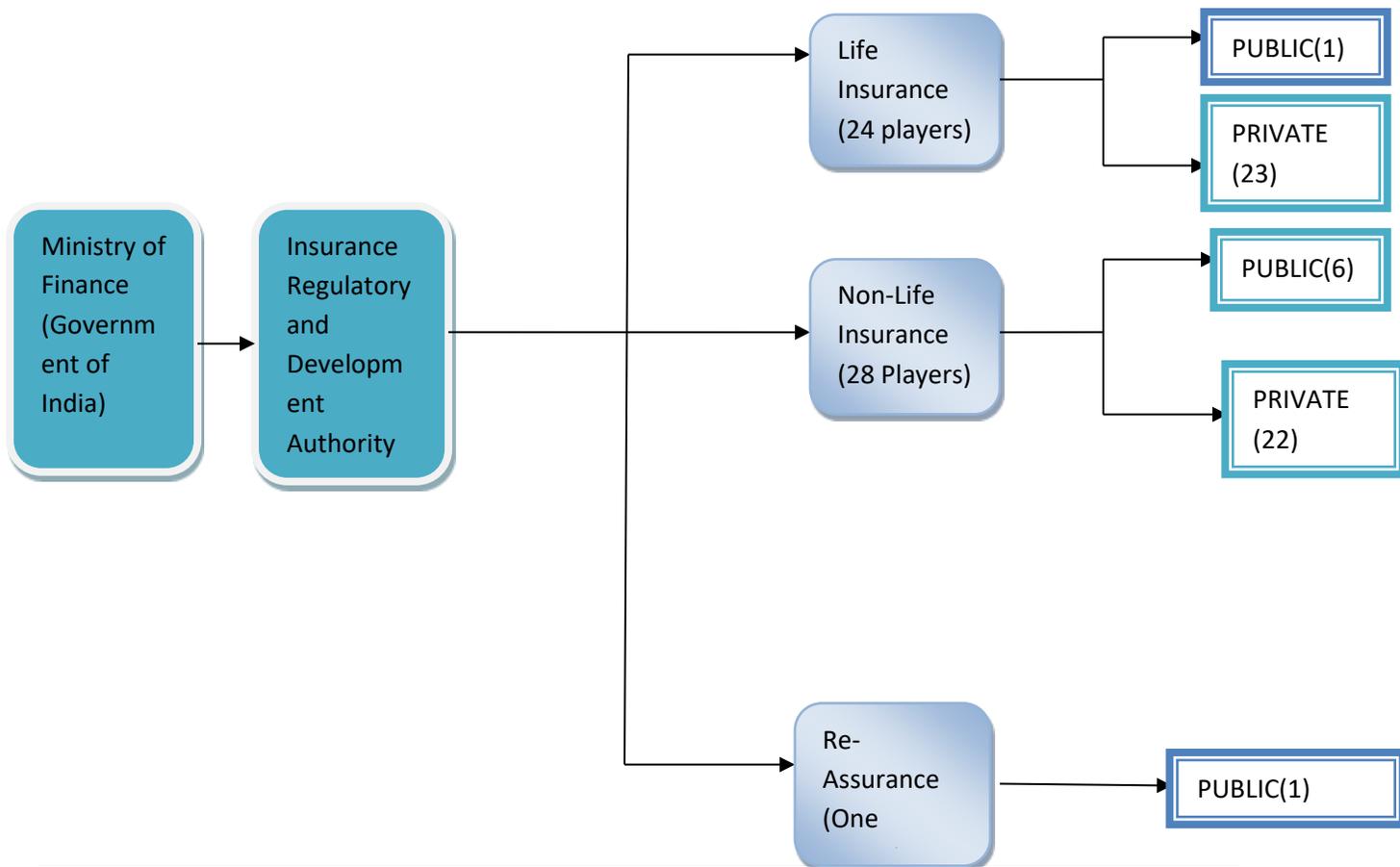
Digitization is rapidly changing the urban, semi-urban and middle to small town landscape. Right from determining key political outcomes to influencing buying behavior, digital is playing an important support role in the lives of customers. This rapidly changing consumer behavior is reshaping the insurance industry and is actually proving to be beneficial for it. While it is well known that going digital is cost effective and productive for insurers. The Insurance Industry's ambition to gain competitive advantage by differentiating digital services and its confidence in having the required building blocks are clear. But the determination and self-assurance can lead to failure as insurance firms begin to execute a portfolio of very different technology initiatives under the digital technology initiatives under the digital strategy. Insurance organizations would be well served to grow their digital capability investments that drive better customer and agent experience by adopting customer-centric technology, organizational and process changes. The cost of not doing so will be painful for those insurers that refuse to adapt, especially as the competitive landscape expands to include new distributors and disruptors. To succeed insurance companies must forge cross-company relationships to develop and support the digital agenda. Obsessing about customers and using digital technologies to deliver more compelling customer experiences at a low cost will ensure that established insurance firms avoid being overtaken by newer insurance organization or the old guard. Digitization has become a way of life in most financial services. We can transact online for our banking, equities and mutual fund needs. This wave will catch up in the insurance sector as well." The idea was to not only make insurance easily accessible to anyone with a net connection, but also to reduce the cost of transactions. Any entity recognized by the Insurance Regulatory Authority of India (IRDA) can now sell a policy on this platform and also take care of end-to-end requirements. The paper enlists changes in the insurance industry by confronting a radical shift in the age of automation. With the rise of digitization and machine learning, insurance activity is becoming automatable and to know the benefits of digitization of Insurance industry, the digitization process for the faster growth of the insurance industry as the online presence of various companies

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Introduction:

The domestic life insurance industry registered 22.55% growth for new business premium in financial year 2015-16, generating revenue of USD20.34 billion largely due to the high growth in the group single premium policy. The non-life insurance premium market grew at a CAGR of 12.1% over FY04-16, from USD3.4 billion in FY04 to USD13.35 billion in FY16. The market share of private sector companies in the non-life insurance premium market rose from 13.12% in FY03 to 45.4% in FY16. As of March 2016, rising participation by private players led to increase in their market share in the life insurance market, with the market share reaching 29.6% in FY16 from 2% in FY03. Increase in FDI limit to 49% from 26%, as proposed in 2012, has further fueled investments.

IRDA Governs the Indian Insurance Industry



Source: IRDA Reports

The total insurance market expanded from USD23 billion in FY05 to USD75.68 billion in FY15, Over FY02–FY15, total gross written premiums increased at a CAGR of 12.6%, Gross premium written in India for non life insurance sector for FY15 is USD13.9 billion and in FY16 (till November 2015), the gross premium written in India for non life insurance sector stood at USD10.2 billion, During the month of September 2016, new business premium of life insurers was recorded at USD2.56 billion, showing a growth of 61 per cent on year-on-year basis. Private players accounted for a share of around 45.4% in the overall revenue generated in non-life insurance sector while public companies garnering around 54.6% share by March 2016

Insurance products are covered under the exempt, exempt, exempt (EEE) method of taxation. This translates to an effective tax benefit of approximately 30% on select investments (including life insurance premiums) every financial year • In 2015, Tax deduction under Health Insurance Scheme has been increased to USD409.43 from USD245.66 and for senior citizens tax deduction has been increased to USD491.32. The Insurance (Amendment) Bill 2015 is expected to empower IRDA to introduce regulations for promoting sustainable growth, providing the flexibility to frame regulations and increase the FDI limit to 49%.

- The government has also extended Rashtriya Swasthya Bima Yojana (RSBY) to cover unorganized sector workers in hazardous mining and associated industries
- In 2015, under National Insurance Scheme PM Suraksha Bima Yojana has been introduced. Under new scheme up to INR 2 Lakh life insurance cover will be provided with a premium of INR 12 per day
- As per Union Budget 2016-17, USD840.21 million has been allocated to “Prime Minister Fasal Bima Yojna”. companies allowed to go public.
- IRDA recently allowed life insurance companies that have completed 10 years of operations to raise capital through Initial Public Offerings (IPOs)
- Companies will be able to raise capital if they have embedded value of twice the paid up equity capital.

Increase in FDI limit will help companies raise capital and fund their expansion plans

- Revival package by government will help companies get faster product clearances, tax incentives and ease in investment norms. FDI limit for insurance company has been raised from 26% to 49 percent, providing safeguard and ownership control to Indian owners

Digital has a multi-dimensional role to play the government has relaxed FDI norms for the insurance sector by permitting overseas companies to buy 49 per cent stake in domestic insurers without prior approval.

Currently, up to 26 per cent FDI is permitted through the automatic approval route. For FDI up to 49 per cent, the approval of the Foreign Investment Promotion Board is required.

“The foreign investment proposals up to 49 per cent of the total paid up equity of the Indian insurance company shall be allowed on the automatic route subject to verification by the Insurance Regulatory and Development Authority of India,” said a Government notification. providing safeguard and ownership control to Indian owners. In 2015, Insurance Bill was passed that will raise the stake of foreign investors in the insurance sector to 49%%, fueling the participation of private sector investment in the insurance sector in the country.

There are 52 insurance companies operating in India, of which 24 are in the life insurance business, 28 in general insurance and one Re-Assurance.

Research Methodology

The paper is descriptive in nature and the data collected is secondary data from Insurance Journals, IRDA Articles, and Websites.

Objectives of the Study

- 1) To know the backdrop of digitization of services.
- 2) To analyze the benefits of digital drive of Insurance sector in India

Limitation of the Study

The study is limited to one country India.

In the life insurance domain:

There are three key ways in which digital transformation, or rather disruption, will work:

- 1) consumer-focused product approach;
- 2) enabling direct business to customer (B2C) connect; and
- 3) enhanced customer experience.

1) Consumer-focused product approach

In the past, many consumers did not understand life insurance products completely and they would assume these to be overly complex and difficult to understand. Investment decisions would be driven by their friendly neighborhood agent, who was actually selling products that were more distributor-focused and gave better commissions, instead of selling products that were beneficial to the customer. Core insurance products like term and health insurance were never recommended upfront due to their small premium size and low recurring value to the agent. With insurance digitization, a discerning consumer has demanded and got more information on details such as product charges, where her premium goes, how much is actually invested and how much goes into expenses or distributor commissions.

2) Enabling direct B2C connect

Insurers have been innovating to provide customers with the option of reaching out to them and catering to customer needs directly. Customers can research online, compare and evaluate multiple products from different insurers, and then go ahead and make the purchase online itself. This has forced insurers to evolve their online ecosystems and digital footprint rapidly to ensure that they provide customers with the right kind of planning tools, easy-to-decipher product content and simple selling.

3) Enhanced customer experience

Better experience through digital helps address three core challenges which are at the heart of life insurance:

- 1) Many consumers find it difficult to purchase life insurance on their own,
- 2) Many are turned off by the hard sell of the traditional face-to-face sales channels,
- 3) Customer contact with the insurer can quickly reduce to a once-a-year statement, which breaks the continuous engagement.

Let us know with the most visible benefit—simplified product buying. Buying a term insurance plan online or through an assisted distributor online is one of the most simplified processes. Insurers are offering online quotations with few questions. Simplification is also built into the application process—minimal medical examination via declarations or previous records, and fixing medical appointments online. Moreover, technological innovation in document submission and online underwriting is reducing customer pain points further.

Even in the assisted sales process through a distributor using a laptop or mobile/tablet device, the customers have all the information at their fingertips. Post-purchase, customers can now access all their information via the Internet and access their policy information on the go.

To keep customers engaged, insurers are providing value-added features and information that they may want to revisit. This reduces instances of lapsation and surrender. Online claims process helps significantly improve customer experience on product delivery.

The Government's role

Governmental actions such as Unified Payment Interface, e-KYC and digitising insurance policies are resulting in a digital push. The government is committed to improving digital literacy. An enhanced e-governance environment has helped launch the Digital India programme that aims at transforming India into a digitally empowered society and a knowledgeable economy. This initiative has created a positive inclination among consumers to become digitally active. Businesses that have a strong digital presence are preferred to their offline counterparts. The insurance regulator, Insurance Regulatory and Development Authority of India, through the iTrex platform, has instructed insurers to upload KYC information of their policyholders. To do away with multiple KYC formalities, it is pushing for consumers to have electronic insurance accounts. This not only makes the life of a policyholder easy, but also makes the work of insurers simpler, more cost effective and efficient.

Role of Insurance Regulatory and Development Authority

As the growth in the industry has been quite remarkable, the IRDA, which frames guidelines for the insurance sector has had a major role to play in the growth. IRDA had come out with some strict guidelines in 2011 which made it difficult for online insurance web aggregators to show comparisons, ratings, rankings etc. But now the online aggregators, which are registered under IRDA regulations, have the authority to allow comparison services, display of rankings and many other similar services which has resulted in attracting customers towards them.

Growth of Digital Technology Boosts Insurance Market Status

In spite of challenges which exist in the market, the online insurance market is growing by the day. Many projects are under way that will bring enhanced connectivity to rural areas of the country. Numerous government initiatives are also helping the sector in increasing the penetration rate. Insurance companies are trying to capitalize the connectivity within the country.

Numerous leading government and private insurance companies have introduced their mobile apps that allow the customer to get the desired information easily and on time. These apps provide detailed information and allow consumers to buy or renew the existing plans simply. All these activities are providing a positive environment for the growth of online insurance market in the India.

The use of digital technology in providing assistance for the growth of the insurance industry is fast changing the way insurance was practiced in the country. Sales agents and online insurance web aggregators are helping customers in buying the desired insurance plans online. Many users do online research and comparison through web aggregators before buying insurance plans. Now, the insurance companies have also realized that having an online presence can help them in increasing their sales numbers and their business as well. New companies, with the help of this route are growing rapidly as compared to the traditional route. As per the recent guidelines, the IRDA has issued guidelines regarding issuing of policies in a digital format. On 16 September 2013, IRDA launched "insurance repository" services in India. It is a unique concept and first to be introduced in India. This system enables policy holders to buy and keep insurance policies in dematerialized or electronic form. Policy holders can hold all their insurance policies in an electronic format in a single account called electronic insurance account (eIA).

The Benefits of Digital Drive of Insurance Sector in India

Digital services offer convenient, choice and comparison. The financial services industry, including insurance is also making efforts to tap this space. Life insurance traditionally sold by agents, is now available for online purchase at lower prices.

According to a report by Boston Consulting Group (BCG), total digital market size for online insurance in financial year 2015 was 1,000 crore. Life insurance new business premium was worth ₹350- ₹400 crore, motor insurance gross written premium ₹ 300-₹ 350 crore; and health and travel insurance gross written premium of ₹ 150-₹ 200 crore.

Many services and sale processes are now technology –based. For instance, paying premiums, making a claim, and tablet-based sales processes in which the agent keys in relevant information in the tablet and system recommends the suitable plans. “the digital platform has standardized the sales pitch and product features are communicated to the customers in a manner that is easy

to understand,” said by Sandeep Batra, executive Director, ICICI prudential Life Insurance Co. Ltd. “Digital orientation can be classified into enriching customer experience and regaining direct control of the customer relationship. This will change the dynamics of the sector,” said by Pradeep Pandey, Chief Marketing officer, Future Generali India Life Insurance Co. Ltd. Digital format hold many advantages for the customer, which in turn penetrates the insurance business in India at a rapid pace. The Benefits are:

- 1) **Cost advantage:** A digital avenue helps insurers save on various operational costs. This can be passed on to the customers in the form of cheaper policies online. “Usually, brokerage for term plans is around 30% of premium while for unit linked insurance plans (ULIP), it is 5-10%. The premium difference between offline and online is 35-40%. Even in auto insurance, the difference is 15-20%,” said by Mahavir Chopra, Head Health, Accident and Life Insurance, Coverfox, a policy comparison site.

The other benefit of the digital format is speedy sales service and increased efficiency. “Customers are able to get timely and accurate updates on modifications in their policies, this, too has increased cost efficiency. Technology enables standardization and improves quality of responses and services,” Said by R M Vishaka, Managing Director and CEO, IndiaFirst Life Insurance Co. Ltd.

- 2) **Safety Net:** It eliminates the chances of fraud and mis-selling by an agent or distributor. For instance, if a customer bought a policy through an agent, and premium is paid in cash, the agent may not deposit the money. Or an agent may force the customer to churn policies or buy a new one just so the insurer can earn the hefty first year premiums. In case of online buying, the premium goes directly to the insurer, and the buyer is clear about the policy features and price, the proposal form will be filled by the policy buyer, hence the accurate information is given and no chances of fraud and false claims.

“Agent involvement gets reduced to a large extent, so premium thefts, sliding and other agent initiated schemes get reduced too. But there is a need for data sharing and linking with various government and private agencies so that information submitted gets verified instantly. Even frauds and discrepancies can be caught spot-on,” said by Bharat Jeswani, CA, Bharat Jeswani & Co.

Insurance companies say that safety is maintained since no vulnerable financial data stays with them. “All online applications are tested for vulnerabilities and customer payment information is routed through payment aggregators, Hence, no credit and debit card data is stored with insurers,” said by Snehil Gambhir, COO, Aviva Life Insurance Company India Ltd.

While dealing with policies online many documents are shared with multiple parties. Therefore, it is prudent to share documents with insurers that have strong data protection controls such as being ISI: 27001 and ISO: 22301 certified. Check the company description section online or ask the representatives before conducting a sale.

3) **Convenience tops:** While digital formats bring in cost efficiency and safety, a feature that probably trumps the other two is convenience. Hence, a step in formation of Insurance repositories, which preserve data of insurance policies in electronic format. This is similar to having stocks or mutual funds in a demat format. At present, there are five registered repositories:

- 1) Central Depository Services Limited Insurance Repository Limited (CDSL IR),
- 2) Stock Holding Corporation of India Limited- SHCIL Projects Limited
- 3) Karvy Insurance repository Limited
- 4) National Securities Depository Limited (NSDL) Database Management Limited
- 5) Computer Age Management System- CAMS Repository Services Limited

“There are various benefits of holding electronic policies, no physical damage or loss, Know-your-Customer process is simplified and it is possible to manage multiple policies via a single platform,” said by Sandeep Batra, executive Director, ICICI prudential Life Insurance Co. Ltd. At present, only life insurance policies can be stored with insurance repositories. The process to get health, motor and travel policies on to the platform is underway. If your policy is already with a repository, keep the account number with you and access whenever you need to see a policy. Even if the policy is not with a repository, it will be available online with the insurer.

4) **Post-sales service:** A major complaint against insurers is that once a policy is sold, the customer is forgotten. Social media has changed to an extent. Most Insurers have facebook, LinkedIn and Twitter accounts, which are a platform to receive complaints and to promote new products or features.

“As a practice, we ensure that customer queries received on business days are responded to within 30 minutes across facebook, LinkedIn, Twitter or other online platforms,” said by Sanjeev S, Head, Marketing and e-channel, ICICI Lombard General Insurance Co. Ltd. “We get an average of 100 queries on social media in a month and we look into all the queries,” he added.

In case of any query or grievance, social media platform is more speedy response; such interactions have the potential to make the grievance redressal system easier. Many insurers have developed their own apps. For example, ICICI Lombard General Insurance Co. Ltd has ‘IL Insure’, through which customers can buy and renew products in motor, health and travel categories. Bajaj Allianz Life insurance Co. Ltd has developed an app called ‘Life Assist’ and it helps users view policy details, claim status, net asset value updates, and fund value, even can get income tax certificate for any year since the policy inception using this app if in need for claiming tax benefit.

- 5) **Faster Processing:** Health insurance claims is another segment that is seeing the benefits of digital innovations. For example, Remedinet Technologies Pvt Ltd provides a system through which health insurance claims are processed on cloud-based platforms; data is exchanged and processed between the hospital and the insurance company. The errors and delays are reduced and the process is more transparent as you can see the data on the platform with timestamps and history. “with such technology in place, cashless claims get passed in 3-4 hours while reimbursement claims take up to 4-6 weeks,” said by Kapil Mehta, ED, SecureNow Insurance Broker Pvt Ltd.

Without a cloud based platform, cashless claims are generally sent through e-mails, and can take 6-8 hours, or more to get passed, depending on the insurer’s response time. Adapting to the digital format holds value for the insurer and the customer. The entire experience, from buying to making a claim, can be made smoother.

Conclusion:

The biggest benefit of having plans and policies in digital format is that a customer does not have to carry hard copies of policy documents so there is less chance of losing documents or the documents getting destroyed in case of an accident. When it comes to technology infrastructure, a recent survey confirmed that the traditional

insurers are in difficult situations. To maintain their position and reputation in the segment, it has become extremely essential for them to start providing digital services to their customers as currently; customers are finding the digital insurance platform more useful and relevant for their desired insurance needs and requirements

"At a time when the speed of digital change is so fast that standing still means falling further behind, this new survey provides fascinating insights into how insurers can respond to – and succeed in – the digital future."

Shaun Crawford, EY Global Insurance Leader.

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