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INDIAN LIFE INSURANCE INDUSTRY PROMOTING INNOVATION AND DEVELOPMENT

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Abstract
Insurance sector in India has become one of the most favoured investment destinations both for Indians and NRIs. India is the fifth largest insurance market among the globally emerging insurance economies. The Indian insurance sector is expected to grow at a rapid pace to reach around US$ 400 billion in premium income by 2020, according to a report released by an industry body and the Boston Consulting Group (BCG). Innovation typically relates to effort for bringing creativity and invention to the marketplace resulting in products and services that have what Prahlad C.K. termed as 'Irresistible Functionalities'. In normal practice, we thus associate innovations with the 'wow' experience they create. Insurance is an industry whose purpose is to address the contents and situation that make human being desperate. Life insurance is a big savings vehicle along with banking in such uncertain economic environment and so we expect the industry to fare reasonably well. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will also support the growth of Indian life insurance. For life insurance, it is time to re-commit itself to customer-centric behaviour, product solutions based on consumer needs, ethical market conduct, transparency and governance. The growth will be the natural outcome for now and years to come. Since its liberalization, the Indian life insurance industry has successfully encouraged innovation and creativity to realize its growth potential. As a result of this, not only has there been quantitative growth in the volume of business, innovation in various aspects of the insurance business has also brought about qualitative transformations in the total customer value propositions offered by the sector. However, the sector has to continue innovating further in respect of its products, processes and technologies in order to get over the challenges it is facing as well as to keep ahead of the competing sectors within the economy.

***Key words: Insurance sector. Innovation, Product Development, Customer Centric, Technology*.**

Introduction
Insurance sector in India has become one of the most favoured investment destinations both for Indians and NRIs. India is the fifth largest insurance market among the globally emerging insurance economies. Growing interest towards insurance among people, innovative products and distribution channels are sustaining the growth of the insurance sector. The various liberalisation policies in the sector have opened the door for various private sector insurance companies. This increase in number of players has resulted in new products, better packaging, improved customer service, greater employment opportunities, etc.

The Indian insurance sector is expected to grow at a rapid pace to reach around US$ 400 billion in premium income by 2020, according to a report released by an industry body and the Boston Consulting Group (BCG). As per the report, this would make India one of the top three life insurance and top 15 non-life insurance markets by 2020. There are number of career opportunities available in Indian insurance sector. Insurance companies have job openings in various fields such as marketing, distribution, actuarial, underwriting, operations and investing departments.

The Finance Minister has approved a proposal to raise foreign direct investment (FDI) in insurance and pension sectors to 49 percent from the existing 26 percent to encourage more investment in the sector. The Securities and Exchange Board of India (SEBI) has relaxed rules to allow more life insurers to launch public offers. The Government's Financial Sector Legislative Reforms Commission (FSLRC) is working on new insurance policies' framework that would end LIC's monopoly, empower IRDA and establish a legal system to handle any lapses at insurers' end. The Indian insurance industry is booming, with several national and international players competing and increasing operations in the country.

Objectives & Methoology of the Study
This paper studies about the growth of Indian Life insurance sector. It also highlights the benefits and challenges of promoting innovation and development of the products. The purpose of present study is to analyze such effects of innovation in life insurance sector on growth and development of India. The paper is completely a conceptual one whose basic foundation comes from various secondary sources like research articles in IRDA Journals; IRDA Annual Reports published and unpublished scholarly papers, and books, various international and local journals, speeches, newspapers and websites.

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Indian Life Insurance Industry at the Forefront of Innovation

An ancient Indian proverb states that we can't change the direction of the wind, but we can adjust the sails. As such, the Indian life insurance industry has been doing just that: innovating and changing to remain both competitive and compliant Life insurance has been a major growth frontier in India over the past 13 years. The Indian life insurance industry, which was liberalized in 1999, allowing private sector players in the business, has grown at a phenomenal pace since its liberalization. The sector experienced a CAGR of 25% in the last decade with total premium reaching US$ 67 billion in 2010 and the Indian market ranking as the 10th largest market in the world.

As a result, the country now boasts a robust and competitive industry. In many ways, India is the ideal market for life insurance; it has a thriving and growing middle class, and the sector is effectively regulated. The state-owned Life Insurance Corporation of India is the market leader, which leads to competition and innovation by private sector companies. New legislation is expected to be passed that allows foreign direct investment in private insurance companies to grow from 26 percent to 49 percent. This development is expected to provide a lot of growth and investment opportunities for the sector. India's life insurance market has been growing rapidly over the last decade. The life insurance penetration (ratio of premium to GDP) grew from 2.15% in 2001 to 4.40% in 2010 while life insurance density (ratio of premium to total population) grew from USD 9.10 to USD 55.70 during the same period. To a large extent, this wave of growth was caused by a spurt in innovation and creativity, promoted by the sector post-liberalization.

Consequent to the opening up of the sector, it has received considerable exposure to the modern concepts and best practices from developed markets across the globe as almost all the major life insurance players are operating in India through their respective joint ventures. This, coupled with the high growth potential of the sector, prompted the industry to embark on a series of innovations and creativity in critical functional areas resulting in the growth of business as well as the development of the sector. During the pre-liberalization period, LIC of India was the only life insurer. There was a phenomenal growth in the volume of annual new business and the product portfolio was enriched with the addition of new and innovative products. While there was aggressive sales and distribution of products with the addition of new channels of distribution, customer service acquired new dimensions with the setting up of multi-channel contact centres by private life insurance companies. Thus, there was an enrichment of the total customer value proposition offered by the sector.

Innovations of Insurance Sector

Innovation typically relates to effort for bringing creativity and invention to the marketplace resulting in products and services that have what Prahlad C.K. termed as 'Irresistible Functionalities'. In normal practice, we thus associate innovations with the 'wow' experience they create. Insurance is an industry whose purpose is to address the contents and situation that make human being desperate. The demand for insurance products is likely to increase due to the exponential growth of household savings, purchasing power, the middle class and the country's working population.

Insurance Growth Drivers in India

The demand for insurance products is likely to increase due to the exponential growth of household savings, purchasing power, the middle class and the country's working population. Listed below, are the various underlying growth drivers for India's insurance industry:

- Growing of the financial industry as a whole
- Growth of life and non-life industry
- Promoting innovation and removing inefficiency
- Competition and orderly growth
- Growth of specific insurance segments such as motor insurance

Emerging Trends

- Multi-distribution i.e. increasing penetration through new modes of distribution such as the internet, direct and telemarketing and NGOs
- Product innovation i.e. increased levels of customization through product innovation
- Claims management i.e. timely and efficient management of claims to prevent delays which can increase the claims cost
- Profitable growth i.e. expanding product range, developing innovative products and expanding distribution channels
- Regulatory trends i.e. mandated regulatory changes by the IRDA to promote a competitive environment in both the life and non-life insurance sectors.

Way Forward

- The Indian insurance market is poised for strong growth in the long run. It stands at the threshold of moving towards a stable position, delivering "stable profitable growth."
- Significant latent market - The insurance market has a considerable amount of latent potential, given the fact that the Indian economy is expected to do well in the coming decades leading to increase in per capita incomes and awareness.
- Channelizing industry focus - In meeting the significant potential, the industry has an increased role and responsibility. Three areas of focus could be — a) product innovation matching the risk profile of the policy holders b) reengineering the distribution and more significantly c) making sales and marketing more responsible and answerable.
- Distribution - Distribution channels evolved in response to market dynamics and changing consumer preferences. The alignment of economic incentives with distribution dynamics should be driven by market forces rather than regulatory intervention.
- Regulation - The industry should be given time to adjust to regulatory changes in a phased manner aligned with a regulatory impact assessment. Regulations need to drive transparency and simplification of products and services.
- The stakeholders should eventually work toward maintaining a favourable environment for stable growth, increasing the penetration of insurance to rural and underpenetrated areas and increasing the contribution to the economy.

Impact of Innovation & Creativity on Business Growth

It is quite obvious from the post-liberalization the sector has witnessed an unprecedented growth in new business. While a part of the growth could be attributed to the increase in the number of companies operating in the market, their distribution network and increased manpower; a significant degree of credit needs to be given to the innovation and creativity brought in by the private insurers in certain key components of business.
Some of the important areas of innovation and its impact on business are discussed below:

Product Innovation

Before the opening up of the sector, life insurance products were primarily used to offer a combination of savings and protection in various proportions. The post-liberalization period saw the emergence of a new array of products called the Unit Linked Insurance Plans (ULIPs), which were designed to offer as an instrument of protection and investment to the customers. Under ULIPs, the investible portion of the total premium paid by a customer is invested in the stock market as per his/her choice. Unlike earlier products, the new set of products offered clarity about the part of the total premium being utilized for offering protection and the part being invested in the stock market. As these plans had been very well accepted in the developed markets of the West, they were introduced in the Indian market with varying features. In the face of the fact that the Indian stock markets were also on the rise during the period 2004 to 2008, the new products were very well received in India as well and they accounted for a good part of the business growth during the post-liberalization period.

The impact of this innovation was felt more on the private sector business, as LIC with its penchant for traditional business and its dominant market presence, neutralized the distribution between traditional plans and ULIPs to a great extent. In fact, for many of the private players, the share of ULIPs was above 80% of their total new business.

New Product Guidelines

The new guidelines for both linked and non-linked products will now come into force from the beginning of year 2014, an extension of three months from earlier specified date. This additional period will ensure that life insurers enter the crucial quarter of Jan-March with a full bouquet of products and the sellers are well trained in the nuances of all these new products.

These product guidelines are in line with the IRDA's regulatory theme of customer orientation and long-term nature of the life insurance business. The guidelines follow two overarching themes of providing Guarantee and enhancing Transparency. The major changes introduced include - Higher Death Benefit, Guaranteed Surrender Value and mandatory Benefit Illustration for all life insurance products.

The changes related to death benefit and surrender value may marginally reduce the customers' overall maturity benefit, i.e., policy IRR, especially at higher ages but will ensure that life insurance serves the purpose of providing life cover which no other financial instrument offers. All ULIPs are currently sold mandatorily with a personalised Benefit Illustration. This requirement is now being extended to other product forms. The new guidelines have also provided for setting up a "With Profit Committee" at the board level.

While personalized benefit illustration will provide for greater transparency in the pre-sales discussion, the With Profit Committee is likely to lead to greater governance in the administration of Participating policies. Premium paying term linked distributors' commission will promote the long-term nature of insurance products.

Future Looks Good

India continues to be a country of savers though we have witnessed a decline in the household savings rate in the past couple of years. In India, the problem lies in household savings lying idle or getting invested in saving instruments that do not help them achieve their life stage goals. There is a worrying trend of larger portion of household savings getting into non-productive physical assets such as real estate and gold. But even then, the future looks interesting for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. World over it has been observed that the life insurance industry does behave in a counter cyclical manner in many cases, e.g., in a situation where the economic growth is slowing down, due to other factors such as high current account and fiscal deficits, currency depreciation, high interest rates, savings rate will continue to be high, leading to higher demand for life insurance.

Life insurance is a big savings vehicle along with banking in such uncertain economic environment and so we expect the industry to fare reasonably well. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will also support the growth of Indian life insurance. For life insurance, it is time to re-commit itself to customer-centric behaviour, product solutions based on consumer needs, ethical market conduct, transparency and governance. The growth will be the natural outcome for now and years to come.

Innovation in Distribution Channels

Distribution is the key to the success in the life insurance business. Before the opening up of the sector, LIC had a mono-channel distribution network with Agency being the only channel. While LIC continues to be largely mono-channel, the private insurers have experimented with alternative channels to a great degree of success. The following new distribution channels were introduced in the Indian market:

- Banc assurance
- Corporate Agency
- Brokers
- Direct Channel

The Bancassurance Innovation

However, in the distribution space, the most noteworthy innovation has been Banc assurance. In this distribution model, a bank ties up with insurance company and acts as its corporate agent to sell insurance products to its own customer base. It has been a very successful distribution model in the West, particularly in Western Europe and the Indian market has also received it very well. It has turned out to be a very cost-effective channel for insurance companies as they get ready access to the vast branch-network of their partner banks as well as to their sales personnel. Creating such an infrastructure on their own would not only involve astronomical costs, it would take ages as well. Looking into the potential of Banc assurance, a good number of large Indian banks, like SBI, ICICI Bank, HDFC Bank, Bank of India, Bank of Baroda, etc., have floated their own insurance companies, thus creating a huge synergy between banking and insurance within the country's financial ecosystem.

Innovation in Customer Value Proposition

Apart from propelling a quantitative growth in business, the liberalization of the life insurance sector has also had a qualitative impact on the total customer value proposition offered by the sector.

These innovations in the products and processes, distribution, customer service, etc. have brought in a greater degree of transparency, flexibility, liquidity and security for the customers. A few significant ones are briefly discussed below:

- Introduction of Benefit Illustration: This provides to customers both an optimistic and pessimistic scenario of returns on their investment in an insurance plan so that they could take a conscious call on buying the product. The insurance proposal is processed only after obtaining the customer's written consent.
- Free-look Period: This gives customers a 15 day period from the date of receipt of the policy document, during which they can cancel the contract if any misrepresentation was made to them at the time of sale.
- Unlike traditional products, in case of repudiation of ULIP contracts, customers are assured of the payment of their investment portion as the risk and investment premiums are clearly segregated.
- There is a greater transparency in ULIP products as customers are told upfront about the various charges being levied under the policy.
- With ULIPs offering partial withdrawal from the investment fund, customers have greater liquidity at their disposal.

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- With the introduction of Contact Centres, while customers have got a better accessibility to their insurers, insurance companies are also able to do a better customer profiling and they are able to manage customer life cycles more efficiently.

Conclusion

The insurance sector plays a fundamental role in the economy. A world without insurance would be much less developed economically and much less stable. Insurance provides an efficient way to support the State in the provision of pensions, healthcare and social security. Insurance supports economic stability and sustainable growth. Since its liberalization, the Indian life insurance industry has successfully encouraged innovation and creativity to realize its growth potential. As a result of this, not only has there been quantitative growth in the volume of business, innovation in various aspects of the insurance business has also brought about qualitative transformations in the total customer value propositions offered by the sector. However, the sector has to continue innovating further in respect of its products, processes and technologies in order to get over the challenges it is facing as well as to keep ahead of the competing sectors within the economy.

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