Insurer of the future

August 2016
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The Indian insurance industry continued on its transitional journey in the past year. The highlight was increased M&A activity during the year, with the majority of foreign partners increasing stakes in their Indian joint ventures following the increase in the foreign direct investment limit from 26% to 49%. Changes in reinsurance regulations also resulted in almost all foreign reinsurers currently operating in the Indian market applying for branch licenses, with some interest even from domestic companies. The pension sector has also received a lot of interest and is slated to come up in a big way. These overwhelming responses underpin the inherent potential within the Indian insurance market despite the challenges.

The insurance industry is now moving into the next phase of having public ownership, with initial public offerings (IPO) expected in both life and general insurance segments. While this phase will bring its own set of challenges due to greater transparency and compliance requirements, it will also provide an opportunity to easily assess and realize gains from efficient management. This phase will coincide with a period of transition globally, in how businesses operate, due to changing customer behavior, changing market dynamics and the increasingly important role of technology.

The Confederation of Indian Industry (CII) and EY bring you this report with a futuristic take on what Indian insurer version 2.0 may look like to tackle the changing scenario.
Insurer of the future
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Executive summary
Predicting the future may be hard, but preparing for it is necessary. The Indian insurance industry is facing a number of challenges such as low customer penetration, inadequate insurance coverage, misfiring distribution channels, onerous claims management framework, decreasing interest rates and an evolving regulatory framework. Additionally, businesses globally are being disrupted, raising the demand and expectation of customers. While there is no denying the underlying potential of the Indian insurance market, insurers need to respond to these challenges and changes to continue to remain relevant in the future.

The future of insurance in India looks not only exciting but also transformative. Insurers will need to evolve the way they do business across operations to become more:

- Customer-centric through increased customer segmentation, offering customized innovative products and using technology to be better connected with the customer
- Data savvy and automated across all processes, including product development, sales, underwriting, claims management and business monitoring
- Open and innovative partnering organizations
- Strong in the core insurance business by using the latest risk management tools and techniques
- Flexible and cost efficient by adopting technology and consolidating

Technology will form the backbone for this transformation, acting as both an enabler and a disruptor. Its role is expected to rapidly change from its current ancillary function to becoming a core competency for insurance businesses. While solutions such as data analytics, robotics process automation, blockchain and cloud are already being implemented, we are currently only seeing the tip of the iceberg in terms of their potential applications and overall ability to transform businesses. A new wave of insights, interactions and value is bringing insurers and customers closer. Leveraging the power of digital insurance is no longer simply about incorporating technologies into the organization, but also about reinventing the organization and the culture within it. The digital bar for insurers is rising continuously, and the companies that can meet this challenge will build greater customer loyalty, improve cost efficiency and increase profitability.

GST – one of the biggest fiscal changes for the country – is potentially another trigger for the transformation of insurance business operations in the more immediate future. The impact of GST on insurance companies will not be restricted to the finance function. It will have far-reaching consequences, particularly on the selection of optimal pan-India business models. From the current practice of dealing with a single tax-administering authority, things are about to get a bit more complex for service providers with the emergence of the center and states as dual stakeholders, and the calculation of input and output tax credits separately for each individual state in which they are earned.

The reinsurance industry is also undergoing a major change, with foreign insurers being permitted to set-up branch offices in India. The new rules are expected to create an even greater focus on services by foreign insurers as they compete for a share of the market. The market for emerging risks such as cyber insurance, customized liability insurance and specific disease insurance is expected to grow, driven by the willingness of customers to pay a premium for specialized and innovative solutions. Reinsurers have a key role to play in helping the insurance industry innovate and cover new frontiers, as the industry looks to them when it comes to exploring the unknown.
1 Insurer of the future
The way businesses are run globally is undergoing a complete overhaul. Technology is giving people the power to challenge each and every aspect of traditional businesses without being restricted by practical implementation considerations of the suggested improvements. “Disruption” has truly become the buzz word of current times. Financial services have historically been guilty of not being very customer-centric. However, with the onset of the start-up culture, the global financial services industry is undergoing significant modernization to remain relevant in this day and age.

The Indian insurance industry has been going through some choppy waters in recent years, struggling to grow at the projected rates. After the life insurance sector opened up to private players, it grew at a CAGR of around 20% between FY01 and FY16. However, this growth was a story of two phases: the CAGR was a staggering 31% for the first nine years, followed by a much more modest growth of 4% for the next six years. As a result, life insurance penetration in India has declined to levels similar to 10 years ago. While the non-life insurance industry has grown more uniformly, at a CAGR of 15% for the past 10 years, the relatively flat insurance penetration indicates this has been more or less in line with economic growth rather than through increased penetration. The stunted growth has created a whole host of other issues, including expense inefficiencies and lower-than-expected profitability.

Life insurance

Non-life insurance

Source: IRDAI Annual Report
As Indian insurers realign their strategies in the backdrop of the current domestic market dynamics and continually changing insurance operations landscape globally, there is a possibility of them radically changing their current operating models. Based on the current challenges facing the industry and the new technologies available, we attempt to gaze into the crystal ball to predict the characteristics insurers of the future should have. We elaborate each of these characteristics with corresponding sample solutions, some of which are already being implemented globally as well as in India. The future of the industry will depend on whether insurers can break traditional mind-sets and really turn challenges into opportunities; with the technologies at hand, the possibilities can truly be unlimited.

Challenges
To analyze the way forward, it is important to look at the current challenges faced by the Indian insurance industry. Successfully addressing these challenges will be key to generating future opportunities for insurers.

Savings-oriented market
India, like a number of other Asian markets, is savings-oriented, reflecting the general mind-set of the population. The protection market is still at a relatively nascent stage despite insurance being present in India for decades, as people generally expect tangible returns for any money paid. This is reflected in the fact that the return-of-premium variants of protection products such as term insurance are equally popular in India than the base version offering no guaranteed payback. The majority of insurance purchases in India are still driven by tax savings. This savings orientation also results in insurance companies constantly competing with other savings solutions providers such as mutual funds and banks for the same pie of the customers’ money.

Persistency
Poor persistency is one of the key issues plaguing the Indian insurance industry. This is particularly an issue with life insurance, where usually less than half the policies sold survive beyond the second policy year. One of the key reasons behind poor persistency is inappropriate selling, whereby products are sold by distributors in search of the highest commission rather than by mapping the customers’ needs. Insurance products offering long-term savings and protection solutions are also incorrectly pitched to customers as alternatives for short-term investment solutions. The customers in this case usually lapse their policies after paying their first premium.

Agent attrition is another key reason for low policy persistency as it affects policy servicing. There is also the possibility of agents churning their portfolio continually by wrongly advising customers to lapse existing policies to purchase new one from them.

Another challenge for insurance companies is getting customers to cover their multiple insurance needs from them. Companies have generally struggled with low ratio of policies per customer, indicating that they are not being able to capture a bigger share of the customers’ wallet.

Low penetration
India has significantly lower insurance penetration than other developing markets. More importantly, the Indian insurance industry has struggled to increase insurance penetration in recent years. While this is correlated with the savings orientation and poor policy persistency in the country, there are also a number of other contributing factors, such as low customer awareness toward insurance requirement and availability, lack of trust among prospective policyholders and adverse publicity because of rejection/delays in claims payout.

Distribution
Distribution would always be a challenge in a country such as India, with its vast and diverse population spread. Agency has historically been the primary channel for distribution of insurance products, and is considered a necessity to reach out to the majority less-investment-savvy population. However, most insurers have struggled to make this channel work in a cost-effective manner, facing issues of low productivity, high attrition and high capital requirements. While bancassurance
has proved to be much more successful, such tie-ups are limited by the number of banks, with banks not adopting an open architecture for distributing policies for multiple insurers. Additionally, banks realize what they bring to the table in terms of insurance distribution and have been increasingly pushing for more favorable terms for tie-ups.

**Fraud and claims management**

Insurance claim frauds are growing in number and getting more innovative. Companies want to simplify the claims process to gain a competitive edge by appearing more customer-friendly. Both alternatives of being careful in accepting proposals and liberal in settling claims or being liberal in accepting proposals and vigilant while settling claims are fraught with their own set of risks. Excess scrutiny in policy issuance makes it difficult to sell in a competitive market with low penetration, while delaying claims or a high rejection ratio gives rise to adverse publicity and regulatory and legal challenges. Recent amendments to the insurance act now also prohibit life insurers from rejecting claims after a period of three years.

**Evolving regulatory framework**

The insurance regulatory body has been expanding its compliance and enforcement activities in recent years, in addition to coming up with multiple new and revised regulations. These have impacted both life and non-life, and direct and reinsurance businesses. While the changes are aimed at addressing existing issues to improve consumer protection, continuous changes have resulted in high compliance costs for insurers. For example, the product portfolios for life insurance companies have gone through multiple revamps since 2010, with newer versions of existing products being launched to be compliant with revised regulations. Besides changing product design, getting regulatory approval and re-training distributors, insurers are also required to set up the changes on multiple administration systems, increasing the risk of errors.

Insurers are also required to implement stricter corporate governance and market conduct regulations. While these regulations have been introduced to address the existing concerns of the market, from an insurer’s perspective they will result in additional compliance costs. Some of these changes, such as the recently revised allowable expenses of management, have significant non-compliance implications on insurers’ management and might force them to re-look at their business models.

**Data**

Data is the lifeline of an insurance company and is getting voluminous each day. A structural challenge in the industry is that many insurers are still operating in an environment of legacy applications that are supported by multiple, siloed databases that do not integrate with one another. Useful claims and investigation data may be captured in a format not readily retrievable within the entire organization and as a result may not be useful in the overall planning and monitoring of the business. Additionally, relevant third-party data sources might not be getting captured and stored by insurers in a useable format. Insureds, claimants and insurance service providers may have separate profiles within the multitude of databases an insurance company maintains. It is highly likely for there to be inconsistencies between the data in these multiple systems. As a result, the data is not only highly segmented, but also of poor quality, making it difficult to use.

Advancements in data analytics have helped further unlock the potential of having good-quality data. However, data still needs to be in a structured format, and the absence of data systems capable of structuring data can result in insurers falling behind competition.

**Insurer of the future: key characteristics**

This brings us to the moot point of what the panacea for these challenges and problems is. While there cannot be a particular definitive answer to it, the challenges do provide us direction in which to look at for solutions.

We have identified five key areas that we believe will be a guide for an Indian “insurer of the future”. These characteristics are not specific to any particular function but instead need to be embedded in every aspect of the way insurance companies do business. Insurers might need to re-look at their current business strategies and operations to see how closely aligned they are to these characteristics, and prepare a roadmap for the transformation.
**Insurers of the future will need to be . . .**

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**Source:** EY analysis
1. Customer-centric

Insurance has traditionally been a product-centric business, focused on developing the best products for a given risk and delivering them in the most cost-effective manner. However, social media and unprecedented access to information, such as peer-to-peer product and service reviews, are giving greater power to consumers and creating more informed and demanding customers.

These experiences are shaping consumer expectations across all industries, including insurance. Customers prefer values that are clearly demonstrated, price that is balanced, and product features and services that are tailored to their needs. They prefer to buy more products from companies they trust. Once customers make their choice and establish a relationship with an insurance provider, they expect the insurer’s products and services to meet their expectations.

Therefore, insurers need to better understand the true needs of their customers in order to redefine the products and services they offer and the ways in which they interact and serve their customers. They need to know their customers better than ever and use the information and knowledge as a source of competitive advantage. Data analytics will be a key tool used by insurers of the future to increase customer segmentation and offer tailored products.

In summary, a customer-centric organization will have:

- Business processes that recognize different customer segment needs
- Technology to deliver a positive and seamless customer experience at every touch point across the customer life cycle
- Strong mechanisms to collect and react to customer feedback
- A culture that places the customer at the heart of the decision-making process

Product innovation

New products addressing customer needs are a cornerstone of a customer-centric organization. Insurer needs to continually think about the ever-evolving customer needs to come up with innovative designs. For example, lack of social-security benefits in India can make unemployment insurance a viable product proposition. Hair insurance is another proposition that might appeal to young male customers in particular. Comprehensive umbrella insurance products customizable to meet the requirements of individual start-ups can also be a solution to service the growing entrepreneur market in India.

Mobility

Smartphones and tablets allow customers to research, buy and manage insurance according to their convenience and requirement. Smartphones allow insurers to remain connected with customers at all times, helping them improve customer experience and build a relationship. A strong relationship with customers can help insurers cross-sell their solutions. A lot of insurers have already developed mobile applications, and the services that can be offered on these applications have limitless possibilities. For example, smartphones could be used to automate claims data submission and allow customers to upload photographs of the damage, whenever and wherever it occurs. In particular for motor insurance, the location of the customer can also be transmitted to recovery or any other emergency services, if required.

2. Data savvy and automated

A research suggests that businesses are failing to use approximately 80% of customer data now generated. While insurers have seen the industry change in a number of ways in recent years, one of the essential success factors for the future will be having good hold on data. The technology to analyze large volumes of data is now available, and insurers should immediately look to modernize their data management systems and pursue data-driven strategies.

Using open market data

Internal data available with insurers might not be enough to develop a sufficient understanding of customer behavior and habits. However, it can be coupled with other open-market data available, for example, from other related industries such as banking and retail to strengthen it. Leveraging the unstructured data available on various platforms could confer various benefits on insurers, such as:

- Detection of frauds
- Improved marketing with prediction of customer behaviors
- Ability to develop products to meet customer demands and requirements
- Help in developing projection models with higher accuracy
- Improved tracking of insurance markets and the overall business health

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The addition of external data — such as from grocery stores, credit card spends and credit scores — can help develop an in-depth profile of each customer beyond the information they provide when seeking a policy.

**Using social media**

Users of social media platforms have grown exponentially in the last few years, and a large numbers of new users join daily. These users share feedback and information about a number of products and services, including insurance.

Social media has invaluable data about all customers (both potential and existing). Insurers can apply big data techniques to this data for the following benefits:

- Utilize discussions and forums with potential customers to identify their needs and demands to develop products that meet their requirements
- Notify existing customers who are in an inactive state about maturity and other types of benefit payments
- In the event of natural calamities, provide claim-related information to all customers
- Detect fraudulent claims by tracking claimants on social media
- Offer products to customers by tracking lifetime milestones or specific events such as holidays

With the increasing use of smartphones and accessibility to faster internet services, social media adoption rates are expected to continue to increase. This makes it imperative for insurers of the future to attract new customers and retain existing customers via social media, and embrace it as a vital data analysis resource.

**Usage-based insurance**

With technology improving insurers’ ability to track insurance usage data in real-time and analyze it, the concept of usage-based insurance (UBI) is becoming increasingly popular. An application of this concept will be “pay as you go” type motor insurance, where customers pay for insurance only when the car is in use depending upon the distance traveled. An extension of this concept is using telematics to track not only mileage but also driving behavior through electronic devices installed in the vehicle, and allowing for the information collected in calculating the premiums. This concept can be applied to other insurance domains as well, such as travel, professional indemnity and aviation, and even health and life insurance by rewarding healthy lifestyles in the form of reduced premiums.

**3. A partnering organization**

Forming strategic alliances is an essential tool for companies today. For insurance companies, the first and easy choice of a partner will be entities from the same value chain, such as distributors and insurable service providers. However, the next step will be partnering with complimentary and even unrelated service providers as the objectives of the partnership expand from sales and services to marketing, customized pricing, and product design and underwriting. The need to access relevant up-to-date information for driving business decisions is at the heart of modern business management. The insurance industry is increasingly using analytics as a core business enabler.

An example of partnering within the insurance value chain can be setting up a “market place” for the materials used by insurance service providers whose costs are reimbursed as part of insurance claims and then mandating all network providers to buy these input materials from this “market place,” thus reducing costs through higher bulk order discounts. This concept can theoretically be implemented in multiple insurance domains, including motor workshops and hospitals. Another example of a tie-up within the insurance value chain can be with hospitals and clinic to cover OPD and dental-type benefits. Insurers are facing a challenge providing coverage for these benefits, as they are largely sourced out of individual clinics, requiring the claim settlement to be on a reimbursement basis. Insurers can tie up with hospitals and clinics to issue cashless cards for offering these benefits only from network providers.

The following are a few examples of probable partnerships for insurance companies with other service providers:

- Partnering with health tech start-ups for access to useful information regarding existing and prospective policyholders, which can be used in product underwriting; partnering with food tech start-ups and even online grocers also a step in this direction
- Partnering with online tax filing firms to target customers who do not exhaust their tax-exemption limits
- Partnership with online travel portals for selling travel insurance
Partnering with companies in the construction sector to provide a combined solution to the long-term housing needs of young customers; can be a lifelong proposition, with guaranteed savings for down payment and house interiors initially, followed by mortgage protection and home insurance, and equity release included for the later life stages.

Partnering with web-based taxi apps to procure behavioral information regarding different segments of customers, which can then be used in underwriting and targeted sales

The possibilities of partnerships are infinite. Technology is increasingly enabling companies to come out of their silos and work with other sectors in an integrated manner. This will be one of the key agendas for insurers of the future as new and innovative business disruptions increasingly become a norm going forward.

4. Strong in the core insurance market

As insurance businesses learn and evolve, insurers of the future will need to keep pace with the market, if not lead the way, in terms of core insurance competencies. The definition of core competencies is itself evolving in the new world, with some insurance companies now considering only product, sales and marketing, and technology for it. The shift of technology from an ancillary to a core competency reflects its growing importance in today’s world of business.

Active portfolio management

Insurance companies generally select their portfolios at the time of entry/policy sale. Insurers of the future will need to actively manage their portfolios on an ongoing basis. For example, a life insurance company can reward customers for healthy living, evidence of which can be collected either from mobile health applications or by organizing fitness events. Reward programs and fitness events will also help build a much stronger relationship with customers. Another example would be using analytics to understand claim indicators and persuading existing policyholders to actively take preventive measures. The cost of these preventive measures can even be built into the pricing and offered to customers as inclusive in the package depending on the cost-benefit analysis.

Fraud management

Fraudulent claims are a key concern in the Indian market for almost all lines of business. However, there are operational challenges around spotting and investigating fraud.

Data analytic tools and mechanisms are increasingly being used to help predict the behavior of policyholders and determine cases that constitute a fraud. Predictive analysis would not only help in reducing fraudulent claims, but also lead to the development of effective in-house claims management systems – for example real-time warnings for multiple unexpected claims from specific areas, branches and even down to individual sales agents, with more complex systems being generated to track customer behavior.

Pension business

The pension business in the country is expected to grow exponentially in the future with the setup of the National Pension System (NPS), which mandates the purchase of pension at retirement. The Government is providing tax benefits to encourage investment in this scheme. The discontinue of pension benefits for government workers has also broadened the market for such products. Insurers of the future will need to be ready to address the needs of this sector.

The two key risks associated with offering pension products are interest rates and longevity. Indian life insurers have historically struggled to get assets with sufficient duration and characteristics matching the pension liability outgo cash flows. While the regulator has now allowed investment in derivatives, there is still limited availability of appropriate liquid derivative assets. Insurers will need to work toward creating a liquid market for derivatives and other assets customized to their needs to ensure they manage their risks better and offer products, including guarantees, based on customer demands.

Annuitant longevity is another risk that is not well-researched or understood in the Indian market as compared to in other more developed markets. Complex models can be built to investigate mortality improvements due to various reasons, such as genetics and improved health care. Data analytics techniques such as generalized linear models (GLMs) can also be used to look for dependence of annuitant longevity on multiple factors to price appropriately.
Real-time pricing

Competitive pressure over the last decade has resulted in a significant shift in the choice of pricing methods from simple to increasingly complex models.

Currently, appropriate rate changes are determined by pricing teams and are then passed on to a rate deployment team for implementation. The process of updating the pricing structure/making changes in the pricing parameter is time consuming. This approach tends to limit or delay the return on investment in new data sources, and the increased insights and model improvements identified by the pricing team. It also limits the possibility of using innovative approaches such as test-and-learn, which is becoming increasingly essential in transparent markets.

Adopting a more real-time approach to pricing requires companies to separate rate deployment from the regular IT change process, and put the control of price deployment and price changes back in the hands of the pricing and underwriting teams. This approach emphasizes frequent changes in pricing and rate algorithms, and allows companies to make rapid changes within a moving market.

5. Flexible and cost-efficient

Being profitable in today’s macro-economic environment is becoming increasingly difficult for Indian insurance companies. On the systems and processes front, insurers are facing increasingly complex challenges such as varied distribution channels; aging, complicated and siloed IT systems, which are, at most times, not suited to their business; and business processes that are ineffective and need manual involvement and competition from new insurers in the market.

Robotics process automation

The back offices of most insurance companies have lagged in adopting the major advancements in enterprise technology over the past few decades. These back offices follow underlying processes that are rules-based, repetitive and frequent. A considerable amount of time and money is probably spent on manual tasks to bridge processes that span departments, business units, platforms, applications and geographic locations.

Robotics process automation (RPA) is an emerging technology trend that can emulate transactional and administrative tasks that are rule-based, repetitive and voluminous. Such automation can have a major impact in back-office functions such as applications handling, claims processing and data entry. It has become an ever more important element for insurance companies as the volume of data and the need to use it have outpaced human capabilities. Automation will enable a scalable, flexible and responsive workforce for insurers of the future.

Blockchain

Blockchain has the potential to help insurers create low-cost customer-acquisition models to improve penetration levels in the country. The benefits of Blockchain are likely to translate into increased productivity, enhanced cross-sell and up-sell potential, improved insights into customer behavior, and reduced fraudulent claims.

Cloud solutions

Insurers are increasingly adopting cloud solutions to reduce their total IT ownership and operations costs. Cloud solutions enable a reliable state-of-the-art infrastructure, faster implementation times and high security levels, as well as ease the workflow configuration to accelerate the process of taking newer products to the market. Through cloud solutions, insurers can conveniently add new applications and solutions to remain flexible and agile.

Consolidation

Private players have now been in the Indian insurance market for more than 15 years. While the entry of private players in the market has been in a staggered manner, some of the early entrants are still struggling to reach a sufficient size commensurate with their business model to operate at optimal efficiency. Regulatory and listing pressures are forcing companies to increase expense efficiencies. While some insurers can try to achieve this objective by reducing capacity, foreign partners whose primary objective is growth might find this option unacceptable. As a result, the current business models might not be sustainable in India in the long term, driving insurers of the future toward inorganic growth in the future.

The model described in this report is not the only approach that one could take. Significant market disruptions typically lead to multiple new business models, and companies might wish to explore other models to respond to disruptive challenges. Regardless of the specific model chosen, many of the components of the approach described in this document will be critical in today’s rapidly changing environment.
Digital: an enabler and a disruptor
With changing demographics and increased usage of internet and mobile devices, the insurance ecosystem has radically evolved. Technological innovations have improved the traditional insurance process, and re-configured the insurance business model.

The insurance market has gradually shifted from being an agent/broker-driven seller’s market to a digitally driven buyer’s market, with the customer at the center of digital transformations across the value chain. To cater to the changing preferences of customers, insurers and intermediaries have started customizing their offerings. Identifying customer needs, defining customer segments and developing need-based value propositions are keys for insurers to be competitive in the market.

Technology has played an enabling role through simplification and automation of the sales process. Insurers have been improving their sales proposition by focusing on increasing insurance awareness via digital channels. With real-time access to policy data and virtualization of processes, customers interact over multiple channels and are looking for instant gratification.

At the same time, technology is disrupting the insurance market in many ways. Technological innovations have led to radical changes in the way products are developed, and in the means of selling them to the target customers and providing post-sales service.

Role of digital across the insurance value chain

Insurers have been considering a holistic approach to connect with their customers digitally across the value chain. The following exhibit depicts the role of technology across the insurance value chain, categorized by its impact on customers, intermediaries and insurers.

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<td>► Digitally enabled tailor-made products</td>
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<td>► Partnership with other service providers to pivot the operating model</td>
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Source: EY Analysis
Product design

A truly digital customer experience requires products that are easy to comprehend, meet the dynamic customer needs and are simple enough for e-applications and direct issuance, enabling instant gratification for consumers. However, digital adoption at the product development stage is low in insurance markets in India.

- **Digitally enabled tailor-made products:** To satisfy the myriad needs of customers, especially in response to their demand for convenience, insurers have been customizing their products and making them available at the click of a button. A configurable core insurance platform, combined with responsive and flexible front-end touch points, allows customers to easily customize insurance products.

  Hdfc Life’s Cancer Care is a highly customizable niche product that can be purchased online. Its features include online quote generation, e-signature, upload manager for documents and online premium payment².

- **OTC products:** The need for simplified products and quick issuance of policies has led to the development of pre-underwritten products with a simplified issuance process. These STP products are being driven by rules-driven platforms at the point of sale. STP products have drastically reduced turnaround times (TAT) and eased the issuance process.

  IndiaFirst Life Insurance issues OTC policies in just 30 minutes from the time it receives data on its servers³.

With various customer segments increasingly demanding customizable products, we expect insurers to accelerate product development on the digital platform in the coming years.

Marketing or sales

The marketing/sale of insurance products in India has largely been driven by agents; however, this scenario is fast changing. The internet user base of India has surpassed that of developed countries such as the US, Brazil and Japan. The number of mobile phone users in the country has crossed the 1 billion mark, including 125 million smartphone users. As a result, the medium of sale is increasingly shifting online.

- **Digital information availability:** After the shift from a mono-channel to a multi-channel distribution model, insurers are working on ways to provide customers consistent experience across different channels such as banks, agents and online with unified digital information. Customers are being provided an interactive experience to better understand products and compare prices.

  Web aggregators serve as one-stop shops for research on products and quotations, including comparison of price and features, without any bias.

- **Digital branding through social media interaction via campaigns:** Innovative online campaigns have been a key to ensure brand recall among customers. Closer tracking of social media presence with respect to hashtags trending, retweets, brand positioning and new followers gained has helped companies move closer to their audience.

  HDFC Life, in association with #fame, has launched India’s first ever digital talent hunt for kids as a part of the marketing campaign for its product HDFC Life YoungStars. The entire process, from entries to the grand finale, will be digital⁴.

- **Adoption of lead management solutions:** Insurance agents need the ability to work on their leads, manage clients, track commission and market prospects. Fragmented

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³ [http://www.pcquest.com/indiafirst-life-insurance-automates-straight-through-processing/](http://www.pcquest.com/indiafirst-life-insurance-automates-straight-through-processing/)
Bharti AXA partnered with Vymo to launch its lead management solution.5

Cross sell via customer mobility solutions: Data management is enabling insurers to cross sell products. For example, insurers have launched mobile apps to give agents real-time visibility into customers’ investment portfolio. As a result, agents are able to suggest products to help customers diversify their portfolio.

ICICI Lombard enables its agents to cross sell products with the help of intelligent apps. The company is using analytics software to develop models to help its agents in doing so.6

Digitally enabled sales process: Digital tools are providing a better and efficient mechanism for agents and front-line sales teams to complete their sales process efficiently and quickly. For example, the digitization of inbound documents, which includes the use of portals for e-application and electronic upload of documents, has been a major evolution in the industry. This has reduced the cost of sales and improving productivity.

IndiaFirst Life has introduced a device named Magic Board for its sales channel to source new policies.7 It has eliminated manual scanning and documentation, allowing on-the-spot policy issuance.8

Adoption of technology-enabled channel: Insurers are increasingly leveraging technology to develop new sales channels. Purchasing insurance via only an SMS with zero documentation and no manual intervention was unthinkable as early as two years ago.

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Atal Pension Yojana (APY) are social security schemes launched by the Indian Government in 2015 and can be subscribed via an SMS.9 They take into consideration banking KYC and auto-debit payment from customers’ bank account.

Optimization of product go-to-market: Distribution of insurance, specifically in rural India, has been a challenge. However, insurers are taking steps to tap the huge potential of this segment. One such initiative is tying up with Common Services Centres (CSCs). To assist with quick adoption of insurance products by these centres, insurance companies are developing user-friendly lean mobility solutions based on portals.

CSC outlets are information and communication technology (ICT) enabled delivery points of government, financial, social and private sector services digitally at the village level. At present, there are more than 160,000 CSC outlets around the country. The highlight of sourcing insurance from this channel is STP, with no documentation due to e-KYC being in place.

Applications, along with a siloed approach toward lead management systems, are now being replaced by unified lead management tools to bring in more transparency on the field. Insurers have started using algorithmic lead allocation and geo plugins to optimize decision making by reducing the TAT.

5 http://www.getvymo.com/case-studies.html
9 http://www.pradhanmantriyojana.in/send-sms-to-join-pradhan-mantri-suraksha-bima-yojana/
We have observed a medium level of adoption of technology in marketing and sales management across India. Insurers need to understand that digital marketing is an imperative in today’s world and that out-of-the-box ways are required to engage and retain customers.

Underwriting or pricing

Automated underwriting tools and accurate pricing mechanisms are necessary to ensure a quick and smooth sales process and improve customer experience. The advent of web aggregators, optimization of underwriting processes via tools and adoption of risk-based pricing are some of the growing trends in this domain.

- **Competitive pricing through web aggregators**: Web aggregators provide a convenient platform for insurers to increase online presence and sales and for customers to choose from the available options. However, only IRDAI-authorized web aggregators can show a comparison of services, rankings and features to attract customers.

  Web aggregators such as Policybazaar help customers make informed decisions by providing a comparison of features, benefits and premium rates for different insurance plans\(^\text{11}\).

- **Process optimization through STP**: STP involves smooth flow of transactions without duplication of efforts and manual handoffs. This results from seamless automation, integration and validation during the journey of a transaction for all users. Automated underwriting rules have a vital role to play in STP.

  A leading health insurer in India adopted a workflow-enabled system that supports STP of the lifecycle of its health product with integration to all back-end systems.

- **Analytics-driven risk pricing**: Prior to de-tariffication in the insurance industry, the pricing of products could not be varied. De-tariffication brought in the practice of rule-based underwriting, thus leading to risk-based decision making. Insurers have been taking steps to improve their pricing models and have adopted a prudent underwriting approach. They are taking the first steps to collect and analyse data needed for usage based insurance (UBI) using telematics devices.

  Indian insurers are still struggling with the digitization of their underwriting processes limited but the existing application landscape and the adoption levels are observed to be low.

Customer servicing

Customer servicing is the key point of contact for an insurer to ensure customer loyalty. As insurers become customer centric, innovative ways are required to improve customer engagement. It requires going beyond the usual policy services to providing a digital service differentiation, personalized interactions, reward and loyalty programs, and anytime, anywhere services. Insurers are taking initiatives to improve customer experience, and the adoption of technology at this juncture is medium.

- **Digital service differentiation**: “Out of sight, out of mind” is a phrase well associated with customers. Insurers are focusing on service differentiation to engage their customers. Such initiatives increase customer interactions, make clients more “sticky” to their insurers, and help improve customer loyalty and retention.

  Memories for Life, launched by HDFC Life, encourages customers to leave behind more than just money. It allows them to record video messages and collate a scrapbook of memories and keep them in a time capsule for up to 10 years\(^\text{12}\).

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Max Bupa Health Insurance recently partnered with Vizury Engage, a leading data and marketing platform, to segment users based on data-backed insights and target them with personalized engagements.

ICICI Lombard enables its customers to pay renewal premium through Paytm wallet.

Bajaj Allianz has 350+ virtual offices operating pan India.

Cigna TTK’s ProActiv Living Program is a specialized program with both online health and wellness initiatives. The program helps customers understand their health through health check-ups and targeted online health assessment, incentivized in the form of health and wellness discounts. Customers can use the points they earn by participating in these initiatives to either increase their benefits or reduce their premiums.

HDFC Life partnered with Netmagic for an effective cloud strategy, which includes an intelligent mix of hosting data on private, public and hybrid cloud as per the sensitivity. HDFC Life has also deployed Netmagic’s unique solutions in storage (tiered storage) and disaster recovery.

Customer engagements using big data: Insurers leverage data from disparate online and offline sources to segment users and target them with personalized engagements. The data gathered from interaction is valuable to insurer as it provides insights about customer preferences, purchase motivators etc., enabling them to contextualize online conversations with their existing customers.

Digital options for policy renewals: To be customer-centric as well as to reduce policy lapses, insurers send automated renewal notifications. Digital wallets have also started gaining popularity in the recent years as renewal premium payment avenues.

Virtual offices: The concept of virtual office is an extension of mobile-based applications: besides going mobile, insurers are now going virtual too. These virtual offices are capable of handling day-to-day activities such as policy issuance, renewal and claim settlement. Activities such as policy servicing are not restricted to customers submitting manual forms at branches any more.

Combination of technology with rewards program: Insurers are looking at ways to retain customers by identifying customers’ latent needs. For insurers, customers become more valuable with tenure. Therefore, considering future customer value, a few insurers have developed rewards programs and clubbed them with loyalty programs.

Cloud-based solutions: Cloud computing extends upward and outward to cloud-based platforms, applications and business processes, opening up new opportunities in terms of how insurers create and deliver products and services, reach and interact with customers and collaborate with partners. Cloud provides insurers the scalability to store an ever increasing volume of data while keeping costs under control. Cloud computing also enables easier deployment of new applications to end users.
Despite the many steps taken to gauge customer behavior and improve their experience, insurers still need to use all the available digital touch points effectively to earn their loyalty.

Claims management

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

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

Leadersing general insurance companies have developed a mobile phone-based software application to transfer data and pictures from the field real time for cattle insurance.

► Intelligence in claim adjudication: Insurers use auto-adjudication to process and pay a claim amount if it is less than a pre-set threshold amount. The threshold amount is calculated and fixed by insurers on the basis of the line of business and other factors with the help of technology.

► Mobility-enabled claim survey: With the transformation of technology, insurers are also upgrading the process of claims survey. Companies are aiming to achieve on-spot conclusion of motor insurance claims, thus enhancing the claims settlement process.

A general insurer recently launched an app which enables surveyors to undertake every process of a motor claim18. This app features optical character reader (OCR) technology to calculate the estimates and claim settlement of the claimant within seconds. Thus, this app behaves as a virtual office for surveyors.

► Analytics-based fraud detection: Insurance companies are using predictive data analytics for fraud detection. With analytics, a rules-driven system is capable of spotting evidence of possible fraud. There are multiple ways of using analytics to detect suspicious claims, such as:
  > Analysis of historical referrals
  > Analysis of historical fraudulent claims
  > Identification of networks
  > Identification of suspicious claim patterns
  > Combination of analytics and adjuster experience

IDBI Federal Life has implemented internal models that detect fraudulent proposals based on historical experience data. The insurer is also implementing data analytics solutions to completely automate this model19.

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

Technology as a disruptor to business models

While traditionally technology has been an enabler of business strategy, in the last decade or so it has also become a business driver behind the new value propositions offered in the marketplace. Though the rate of change in the insurance industry has been slow as compared to rest of the financial services industry, technology has become a disruptor of existing business models. In large emerging economies such as India, this has sometimes meant a shift to a completely new way of doing things, surpassing some of the transition states that the more developed economies underwent. This is, however, tempered by the relatively low insurance penetration and less matured regulatory frameworks.

The following are some of the technology-led disruptions from around the world:

► Internet of Things driving usage-based insurance and other applications

Internet of Things (IoT) simply refers to devices talking to each other. Since insurance is about assessing and pricing the risk of loss, this technology transforms the risks being insured from being static to dynamic. For example, traditionally in motor insurance, the likelihood of loss is estimated by studying the past patterns of claims frequency and severity based on the make, model and year of the vehicle and the demographics of the insured. However, by using telematics devices, motor insurers can monitor “actual” driving behavior in real time and price the risk accordingly. This is being sold as “pay as you drive”. Similarly, in health insurance, health insurers are tracking the lifestyle of customers through smart devices to offer “pay as you live” insurance.

► Another instance of IoT technology is unmanned aerial vehicles (UAVs) or drones. The potential usage of drones in the insurance industry is huge in various functions such as risk assessment, risk monitoring, loss prevention and loss assessment, for instance, in crop insurance.

As a pilot project, Skymet (a weather forecaster), along with Agriculture Insurance Company (AIC) and Gujarat government, used satellite remote sensing technologies and drones across villages in Gujarat21. Drones could be used to inspect crops for weather-related damages or diseases. The feeds sent by drones can be collated by satellite imaging and remote sensing technology to assist insurers in calculating disbursals on the basis of actual damage of crops.

► Robotic process automation

Robotic process automation (RPA) replicates human behavior and executes non-judgmental sequence of activities across applications. It emulates human execution of repetitive processes via existing user interfaces. Robots are a virtual workforce controlled by business operations teams. RPA is capable of saving costs, enhancing accuracy and scalability, and increasing compliance. Software robotics is in the initial stage of evolution, and its current capability is limited to a rule-based defined set of activities. Robotics extends the benefit of technology to areas usually reserved to manual, cost- or time-intensive and error-prone processes. It can help in achieving an approximately 35% reduction in cost for high volume rule-based tasks.

ICICI Lombard has deployed telematics to arrest marine cargo losses20. It is able to track goods in real time during transit to ensure that the carrier does not deviate from the course. As a result, it has been able to minimize hijacking incidents.

Guohua Life Insurance introduced an omni-channel online client service. In addition to human representatives, it uses a chatterbot system to help customers perform basic transactions and services in real time 24/7. The chatterbot uses natural language to have human-like conversations with clients, improving customer satisfaction.

Insurers' data exchange

Today’s insurers have collaborated with third-party data service providers for better strategic and policy-related decisions. For example, insurance information bureaus maintain a comprehensive database of customers’ e-insurance account details, and make KYC-related data exchange available for insurers. Data service providers provide insurance risk-management solutions, data repository and fraud monitoring framework for insurers.

A large Indian private insurer identified the opportunity in utilizing the large network of corporate clients in the fire insurance business, by creating a pool of fire-preventive and control resources of the clients. It built a system to capture location-wise details of the clients’ fire assets to enable the use of combined resources in case of a fire incident at any of the individual client location.

Insurance bundling on e-commerce platforms

Insurers today are looking beyond traditional distribution channels and partnering with new-economy firms such as telecom providers, travel booking portals and e-commerce firms for alternative distribution of insurance products. Insurers are focusing on tailor-made insurance packages for targeting online marketplaces such as travel aggregators and health or wellness benefit providers. The adoption of these new channels will significantly change distribution strategies and product pricing. Insurers need to display high technology-readiness to adapt to these changes.

Blockchain

Online tax planning firms such as Taxsmile and H&R Block offer tools such as insurance calculators, save-tax pages and blogs to make it easier for customers to understand insurance products in co-relation with tax savings. Online startups such as Practo and Bookmydocto offer insurer-sponsored free health check-ups on their websites. Soon, these players will start sourcing insurance from their portals.

In the long run, we can foresee the application of blockchain technology in the global insurance industry. The architectural properties of blockchain provide a foundation for the digital landscape. At present this technology is used for Bitcoin payments. However, insurers are expected to build platforms using industry standards to cover the entire value chain from customer wallets to client-driven applications. Blockchain has the potential to eliminate error and detect fraud by providing a decentralized digital repository to verify the veracity of customers.

Competitively disruptive scenarios like these will become game-changers for the insurance industry. It is clear that disruptive technologies have the capability to transform industries, wipe them out, develop them, shrink them and turn them upside down. Insurers have started following a bi-modal approach to IT: on the one hand, they are spending on infrastructure, increasing efficiency and reducing costs through economies of scale; on the other hand, they are investing in new initiatives, new tools and new ways of doing things that are more agile. In order to compete in this dynamic technological landscape, insurers are focusing on both tracks in parallel instead of trying to change things altogether.

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Conclusion

Technological advancements will continue to be a constant feature in the market, and the insurance industry will require a viewpoint for adopting new technologies in the future. The following is a representation of the various technologies and the timeframe in which we expect them to be adopted by insurers across India.

In less than a year’s time, rapid advancements in mobile technology, application software and connectivity are expected to reshape the industry. Social, media, analytics and cloud cannot be considered as separate mediums anymore. Social media platforms are cloud-based applications available across digital devices. Big data analytics has been providing insights into customer behavior and has helped improve customer engagement. Insurers have adopted these technologies and are driving digital transformation in the industry.

In three years’ time, UBI is expected to be prevalent in the motor insurance segment. Awareness about telematics is low among Indian customers. RPA is fairly new and at a nascent stage in the country. With automation being the key concern for insurers, RPA is going to be the buzzword in the industry. IoT will lead to an explosion of data, with connected cars and buildings and wearable devices causing a fundamental change in the way customers know and interact with each other as well as insurers. The capability to analyze data in real-time will improve the decision-making capabilities of insurers, allowing them to offer personalized experience to customers.

In five years’ time, the adoption of disruptive technologies such as blockchain by insurers will transform the industry from a traditional trust-backed system to a “trustless” system that may provide strategic long-term benefits. However, due to regulatory constraints in India, peer-to-peer insurance will take a while to kick-start.

With increasing capital infusion in the market and the arrival of new technologies, insurers have been readily adopting digital solutions to improve customer experience as well as maintain profitability. As compared to developed markets such as the US and the UK, India has a wider gap to be covered. With the rising population and changing demography, insurers and intermediaries will have to innovate continuously to be relevant in the market.
3 Expanding frontiers for reinsurance in India
The Indian reinsurance industry grew steadily at a CAGR of 9.4% between FY10 and FY15. Reinsurance premiums are traditionally dominated by the non-life business due to the complexity of risks involved, especially in the commercial lines of business. The trend is similar in India, with non-life business contributing around 95% of the total reinsurance premium historically.

The short-term growth in reinsurance premiums has, however, been relatively flat despite steady growth in non-life insurance premiums. This is reflected in the steady decrease in the percentage of reinsurance premiums ceded by non-life insurers over the years. One of the reasons for this decrease can be the requirement for Indian insurers to have increasing insured risk retention, in line with their financial strength, volumes and maturity.

Reinsurance premiums (INR crores)

<table>
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<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
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<td>502</td>
<td>625</td>
<td>764</td>
<td>1,036</td>
<td>1,089</td>
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<tr>
<td>11,957</td>
<td>15,701</td>
<td>18,508</td>
<td>17,829</td>
<td>17,274</td>
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</tr>
</tbody>
</table>

Source: IRDAI Annual Report

On the other hand, the percentage of reinsurance premiums ceded to total life insurance premiums has increased over the past few years. This growth can be attributed to increasing focus of life insurers on pure protection for both individual and group platforms. Life insurers have introduced innovative solutions in this domain that require a reinsurer’s expertise for pricing and underwriting.

Changing scenario

The reinsurance industry in India is likely to see heightened action in the near future with a number of global reinsurers having applied for licenses to open branches in India. IRDAI’s rules will require foreign reinsurers to offer much more to insurers in terms of services and support to be able to compete with GIC Re. This should lead to the overall development of the reinsurance space in India through:

- Better understanding of the risks faced by the Indian economy, leading to innovative and customized products
- Transfer of expertise and market modernization through dissemination of technical and managerial knowledge and expertise
- Technical, underwriting and claims assistance to insurers in specialized areas where the insurer may have limited experience, especially while setting up new lines of business
- Development of auxiliary services such as brokers, lawyers, accountants and IT service providers

According to Lloyd’s Global Underinsurance Report October 2012, the level of underinsurance in India is close to US$20 billion. The report suggests that with such massive underinsurance, close to 80% of natural catastrophes remain uninsured. As India continues on the development path, it becomes even more critical for it to have a vibrant and efficient insurance industry to support the industrial and infrastructure growth. Underinsurance places a high degree of burden on the Government for the rebuilding efforts in the event of a disaster, and slows down other developmental efforts. Economies with developed insurance industries are able to effectively pass on this burden to insurance and reinsurance companies in the form of insurance recoveries. The report indicates that while better-insured countries historically recover almost half of all losses from natural disasters, India in comparison recovered less than 16% during 2004–2011.
The reinsuring industry has a key role to play in developing the domestic insurance market by providing risk-absorption capacity and diversifying domestic risk globally. This, in turn, will allow insurance companies to utilize their capital more efficiently in newer products for industrial sectors, thereby supporting the country’s economic growth.

The ever-evolving Indian economy presents myriad insurance needs, in terms of both developing existing offerings as well as expanding into new areas. This situation presents both challenges and opportunities to reinsurers as the insurance industry looks to them when it comes to exploring the unknown.

**Expanding existing markets**

Although there are various insurance solutions available, some of them are significantly under-penetrated. In addition, some have significant growth potential considering the overall economic growth in the country. Reinsurers can play a key role in increasing the penetration of these solutions as they bring in the expertise and capacity required to address the potential growth in demand.

**Marine insurance**

Marine cargo and marine hull insurance accounted for about 3% of the general insurance market in FY16. Both segments are largely catered to by public sector insurance companies, in particular marine hull insurance where larger fleet and high value vessels require reinsurance facultative capacities. There can be growth in this segment through a number of initiatives such as discussions on the purchase of high-value LNG ships and building of navy vessels in private shipyards. Also, increase in utilization and insurance purchase by major and minor ports over a period of time, and the development of infrastructure facilities and stricter implementation of safety regulations may bolster growth and increase the profitability of this line of business.

**Aviation insurance**

Aviation insurance constituted about 0.5% of the general insurance market in FY16. This segment is dominated by a few players competing heavily on price. This market has potential for growth considering an increase in the number of low-cost airlines as well as in air traffic and passenger traffic. Airport development plans and the growing HNI segment in the country are also growth drivers for this business.

**Engineering insurance**

Engineering insurance accounted for less than 3% of the general insurance market in FY16. This is clearly a growth area, with the focus of the current Government on increasing production capacity in India, as demonstrated by the Make in India initiative. While the housing market has slowed down in recent years, construction companies have realized the risks involved in the business, after a number of adverse rulings by courts in favor of customers. The risks are expected to increase with the proposal of a property regulator being set up, which is expected to result in more stringent customer-friendly contracts.

**Liability insurance**

Liability insurance accounted for only about 2% of the insurance market in FY16 but remains one of the fastest growing lines of business. The technology, auto and pharma sectors are dominant buyers of liability policies, largely driven by contractual requirements. However, an increasing litigious behavior in India as consumers become more aware and empowered through consumer courts, as well as strengthening of regulations, means that there is tremendous potential in this business for insurers. The market for professional liability is rapidly expanding in new areas, with growth of professional services in India beyond medicine and chartered accountancy. In addition, regulatory changes are creating new requirements for insurance such as director’s liability. Although a number of liability insurance products are available to cover such needs, the risks and coverage on offer are still not very well understood by both distributors and customers.

**New frontiers**

The world is evolving at a much faster rate than ever, resulting in a change in demands and focus areas for businesses as well as society in general. India, being a growth economy, is in particular witnessing this firsthand. Reinsurers today are operating in a risk landscape that is shifting ever more rapidly, and charting emerging risk and opportunities in a pre-emptive way is key role of a reinsurer.

**Cyber risk**

The increasing concerns around cyber risk continue to dominate discussions in nearly all forums across industries and public sectors. These discussions are usually on data protection, network and system security, digital innovation and disruption.
Being a key player in the outsourcing business, India accesses a lot of data globally and cyber risk is a key concern for clients. The risk is expected to increase in the future, with growth in big data and data analytics requiring even more data to be accessed. While cyber liability insurance products are available in India, providing comfort to global clients on cyber risks is one of the key challenges for technology businesses. However, this challenge can also be viewed as an opportunity. A cyber risk insurance product that can assure stakeholders of market-leading preventive measures around cyber risks being adopted can be beneficial for a business.

**Long-term care**

While long-term care insurance products have traditionally not been very popular in India, they have the potential to grow, considering the breakdown of the joint family setup and the growing salaried working population. Growth of this market will lead to a surge in the demand for a number of insurance offerings already popular in other markets, including equity release schemes, innovative pensions/annuities and long-term critical illness coverage. Reinsurers can use their global experience to help customize these solutions for India.

**Critical illness insurance**

One of the recent trends in life insurance is of customized products for specific critical illnesses such as cancer. There is a genuine need for these products, which can provide for not just the treatment costs, but also the other needs of the insureds and their family through the various stages of the disease. Besides critical illness, solutions can also be designed for other ailments common to India, such as diabetes and tuberculosis. Reinsurers, with their experience and expertise, can play a significant role in helping insurers develop end-to-end offerings, including the designing, pricing, underwriting and ongoing monitoring, for such solutions. Additionally, innovative customized ideas around active portfolio and claim management for these diseases can also be introduced by reinsurers based on their expertise in technology and data analytics.
GST: A new paradigm for insurance operating model
The story so far!
The goods and services tax (GST), which consolidates over 20 indirect taxes currently existing in India into a unified levy, is one of the most significant fiscal reforms in the country. The promise of the potential buoyancy in the GDP as a result of a reduction in the cascade of taxes, improved supply chains and better compliances, makes GST implementation a much sought-after reform.

What GST means for the insurance sector
The Government has recently put the law in the public domain along with the GST Processes (which were released late last calendar year) for businesses to assess its impact on their operations and start preparing for GST implementation. In most industries, the existing operational models partake the peculiarities of the current indirect tax regime and will therefore need to be changed dramatically in the GST regime. For example, several companies procure goods from within the state as against inter-state purchases to avoid the 2% non-creditable Central Sales Tax, despite differences in the quality of the vendor supplies and efficiencies. In the new regime, such non-fungible taxes will no longer govern supply chains giving companies the option to evaluate vendors from different geographies and states.

Insurance, being a service industry, deals with one single tax (service tax) with one administering authority (the Central Government). One of the significant impacts on this industry under the dual GST structure would be the emergence of dual stakeholders in every taxable supply of service: the Government of the State where the supply is made and the Central Government. From dealing with a central service tax for pan-India operations, insurers will potentially start dealing with 38 taxes:

- 35 State GSTs (SGSTs) of the states and union territories
- 1 Central GST (CGST)
- IGST on inter-state supplies

Re-evaluation of customer acquisition and management model envisaged
Currently, the resident location of a policy holder, be it a corporate or an individual, does not affect insurers, considering that any insurance transaction within the country is subject to a central service tax (unless specifically exempted). Given the changed tax regime with GST, insurers would need to increasingly focus on the following elements as part of their customer-acquisition strategy:

- Customers’ resident location (location of the service receiver): As SGST gets implemented insurers will need to improve their processes architecture and controls to capture this information to ensure appropriate compliance.

- Location of the acquiring distribution channel: Given the varied operating models across distribution channels, it will be of significance to critically evaluate the current distribution structure, where customers could be acquired across the country with distributors being located centrally or regionally in a separate state.

- Policy issuance and servicing framework: In order to assess the location or office from which insurance is being sold for tax purposes, it will be important to evaluate the operating framework in a centralized vs. decentralized manner as the taxes could accordingly vary. The draft law, for instance, does not clearly specify how to determine which office of the insurer is providing the insurance service; it is vaguely defined as the registered office providing the service. This is likely to lead to debates on whether it is the office centrally signing and issuing the policy or the office where the policy is being logged in or service is provided. Therefore, determination of the office of the insurer as well as the office of the insured will be critical vectors for tax compliances going forward.

Intermediary remuneration construct and payout procedures will be driven by an optimal approach
Intermediaries are guided by remuneration, and insurers have devised attractive incentive constructs for them. In the design of remuneration, due consideration will need to be given while evaluating the non-monetary mix. Tracking non-monetary remuneration, which is typically disbursed in kind, can be a potential challenge in terms of the states in which the procurement and delivery are being made. This is not required under the extant regime which is governed by cost only. The delivery process may also get impacted because of the ensuing state tax implications: centralized credit vs. regional disbursement vs. branch options. Insurers will also need to build internal controls to track the payment of tax by distributors, to ensure compliance.
Decision making for procurements and vendor management will be guided by GST guidelines.

Businesses will soon start evaluating their supply chains on the procurement side as well due to the restrictions on use of the SGST credits. More and more insurers may look at decentralizing procurements. The guidelines would also impact the process of decision making considerations for on-boarding vendors based on their geographical spread, location of service deliveries and payment locations. Hence, outsourcing decisions around data entry, printing, dispatch, investigation etc. will require a new angle of IGST and SGST taxes.

For example, where a particular state decides on a lower SGST rate for health insurance services, a corporate client (who may potentially be unable to claim credits of employee insurance), may opt to procure in a state with a lower local GST rate in order to reduce tax costs. Depending on the impact on businesses, clients may come across with new asks on policies.

A similar relook will need to be done at the insurer’s end, where state tax liabilities will need to be mapped along with the relevant state input tax credits in order to avoid any blockages of credits. Motor vehicle insurance would be a classic case, where the credits of the network third parties will accrue in the state where the repair services are availed by the policy holder but the tax liability for the insurance company on that policy may not necessarily be in the same state.

**Getting GST ready**

Insurers need to ensure that their GST implementation plan achieves the key objectives of zero business disruption and 100% compliance. One of the critical success factors for a business to smoothly transition into the GST regime would be process-readiness and technology-readiness to take on not only higher compliances, but also transaction-level reporting — a novel concept in the prevalent indirect tax regimes. Gearing up to ensure that all transactions are appropriately mapped and measured would be essential.

The GST regime is likely to throw up interesting opportunities and challenges for insurers. They need to consider GST as a business transformation lever to strengthen their present business processes, identify opportunities and have a first-mover advantage.
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Notes:
EY offices

Ahmedabad
2nd floor, Shivalik Ishaan
Near C.N. Vidhyalaya
Ambawadi
Ahmedabad - 380 015
Tel: + 91 79 6608 3800
Fax: + 91 79 6608 3900

Bengaluru
12th & 13th floor
“UB City”, Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 4027 5000
+ 91 80 6727 5000
Fax: + 91 80 2224 0695 (13th floor)

Chandigarh
1st Floor, SCO: 166-167
Sector 9-C, Madhya Marg
Chandigarh - 160 009
Tel: + 91 172 671 7800
Fax: + 91 172 671 7888

Chennai
Tidel Park, 6th & 7th Floor
A Block (Module 601,701-702)
No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100
Fax: + 91 44 2254 0120

Delhi NCR
Golf View Corporate Tower B
Near DLF Golf Course
Sector 42
Gurgaon - 122 002
Tel: + 91 124 464 4000
Fax: + 91 124 464 4050

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 034
Tel: + 91 484 304 4000
Fax: + 91 484 270 5393

Kolkata
22 Camac Street
3rd floor, Block ‘C’
Kolkata - 700 016
Tel: + 91 33 6615 3400
Fax: + 91 33 2281 7750

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 022 6192 0000
Fax: + 91 022 6192 1000

 underscored text

Pune
C-401, 4th floor
Panchshil Tech Park
Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 6603 6000
Fax: + 91 20 6601 5900

For further information, please contact

Rohan Sachdev
Global Insurance Emerging Markets Leader
Partner and Leader - Financial Services Advisory
EY
Email: Rohan.Sachdev@in.ey.com
Tel: +91 22 6192 0470

Narendra Ganpule
Partner - Financial Services Advisory
EY
Email: Narendra.Ganpule@in.ey.com
Tel: +91 22 6192 1204
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