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Indian Insurance Industry 2021 and beyond: The art of the possible

Painting a post-pandemic landscape

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Every crisis, whether personal, social, or global, makes us look at things differently and possibly changes our way of life. In the past, a global emergency like a recession or a pandemic had forced our societies to adapt and change our course. The year 2020 has presented us with both a pandemic (social crisis) and a related recession (financial crisis). As a result, we are forced to look at the way we lead our lives, run our businesses, and plan our economic policies, so that we can do course correction for the future in a completely new light. The economies of more than 100 countries have cracked and many major industries – entertainment, automobile, travel, tourism and hospitality – have been negatively impacted due to the coronavirus (COVID-19) pandemic.

The April 2020 report of World Economic Outlook (WEO) projected the global economy to contract by -3 percent in 2020 due to COVID-19. The projection was lowered to -4.4 percent in the October 2020 report. In April 2020, the global economy was projected to grow by 5.8 percent in 2021 (figure 1), and the projection now stands at 5.4 percent.[8] The global economy is expected to recover more gradually than previously expected.

[8] https://www.imf.org/en/Publications/WEO

Figure1: World Economic Outlook's 2021 Growth Projections released in April and October 2020

Recently, the Indian economy has entered a technical recession for the first time in history as per the Reserve Bank of India. In August 2020, the economy was reported to have a 23.9 percent contraction in its Gross Domestic Product (GDP) for the April-June quarter. The GDP for the July-September quarter has been reported to drop 8.6 percent, leading to the Indian economy shrinking in two consecutive quarters, the identifier of a technical recession.

The COVID-19 pandemic adversely impacts most industries. There is one industry which works around hedging against these kinds of unforeseen situations and provide assurance. Insurance companies hold about USD 20 trillion worth of assets in North America, Europe, and Asia-Pacific (figure 2) and around USD 33 trillion world-wide according to FSB 2020 report.[9]

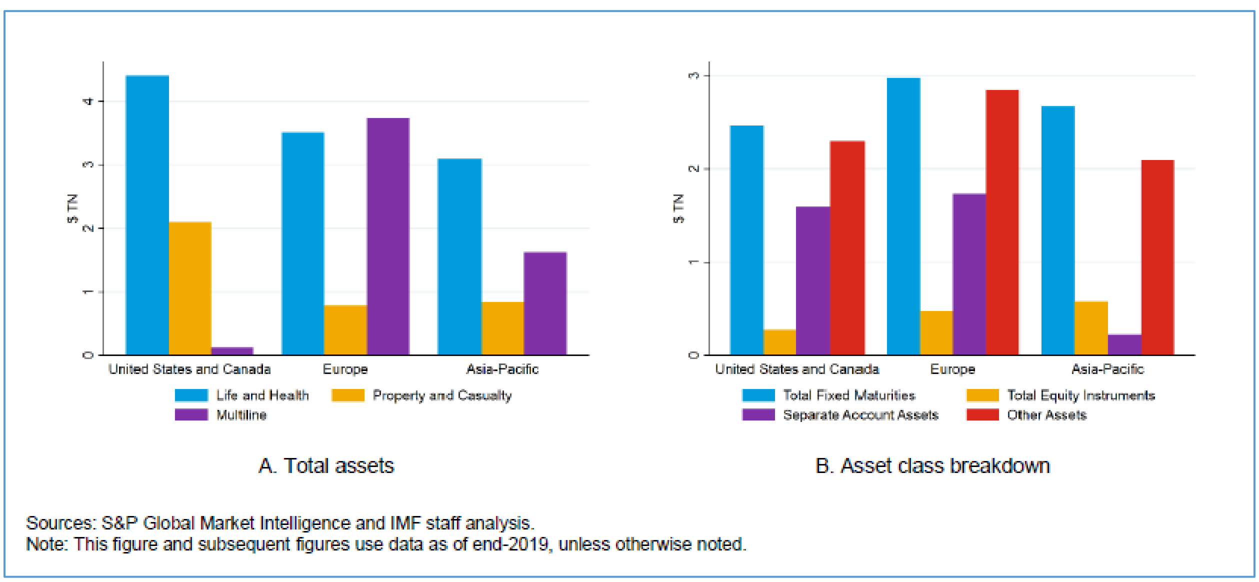

Figure2: Asset valuation of Global Insurers by Region and asset-class

[9] https://www.fsb.org/wp-content/uploads/P190120.pdf

1. Impact of COVID-19 on global reinsurers:

The pandemic and unexpected lockdowns have impacted the global insurance industry. The industry has been affected by the escalation of healthcare costs and the cancellation of major events. Insurers will get affected by the COVID-19 pandemic both directly, through the health shocks (increased mortality and morbidity), and indirectly via the financial shocks of higher credit spreads, widespread downgrades, and lower equity prices and interest rates (both short-term and long-term). The financial impact of the epidemic has been far greater as compared to the health impact. The automobile insurance segment, which accounts for over one-third of the overall insurance premium collection, witnessed a slowdown before the COVID-19 outbreak. The lockdown has severely impacted the auto-insurers across the globe. There have been similar effects on a few other non-life insurance businesses as well. In situations like hurricanes and wildfire, the losses increase for reinsurers as they insure parts of policies for multiple insurances. And in cases of major global pandemic and lockdowns, the losses go up significantly.

Though the two leading reinsurance companies – Swiss Re and Munich Re – posted profitable financial results excluding the pandemic-related losses, the impacts of COVID-19 on insurance companies across the global economies have cumulatively ensured some hard decisions taken by the reinsurers.

Swiss Re:

According to its 31st July 2020 report, the leading global reinsurer had maintained an industry-leading capital position in the first half of 2020 despite the pandemic related losses. Property & Casualty Reinsurance (P&C Re)'s renewals premium volume was up 6% - a significant rate hardening in the natural catastrophe business. The first half of 2020 captured a net loss of USD 1.1 billion owning to the Group's COVID-19-related claims and reserves of USD 2.5 billion. Swiss Re sold its subsidiary ReAssure to Phoenix Group Holdings plc for GBP 1.2 billion and a 13.3% stake in the latter. Swiss Re was able to keep its solvency test ratio above the target level of 220% as of 1 July 2020 with the sale of ReAssure and COVID-19 losses impacts.

Munich Re:

In the second quarter of 2020, the 1880-founded Reinsurer registered COVID-19-related losses of about €700 million in the reinsurance business. The bulk of these losses were attributable to cover for major events (cancellations and postponements). Lower impacts were reported in life and health business and other lines of property-casualty business, including business interruption. Munich Re declared it would not attain its profit guidance of €2.8 billion for 2020. This decision was made considering the greater uncertainty concerning the financial impacts and the macroeconomic effects of the pandemic and assuming a burden from major human-made and natural-catastrophe losses.

2. Impact of the pandemic on Indian Insurers

In the Indian insurance market, there are 24 life insurance and 33 non-life insurance companies at the time of drafting this article. The standalone health insurers have reported a 61% year-on-year growth in retail health in June 2020, according to a report by Kotak Equities.[10] As per a PwC report titled "COVID-19: Impact on the Indian Insurance Industry", the two productive months for the Indian insurance industry (based on corporate renewals) – March for life insurance and April for non-life – have been hit almost 30% and 15%, respectively.[11] Interestingly, inquiries about health insurance policies have increased by 30-40%. So the awareness of health insurance is rising in the Indian population (138 crores). Note that India continues to have one of the lowest overall insurance penetration: 3.69% according to the FY2017-18 annual report by the Insurance Regulatory and Development Authority of India(IRDAI). Further, the extended lockdowns due to COVID-19 had pressed Indian insurers to depend heavily on their digital framework from selling new policies to settling claims.

Looking at China, a recent survey done by McKinsey found that the broad economic view in the country may be encouraging.[12] But for the insurance industry, the position is somewhat complicated. While some lines of insurance businesses fared well, others suffered significant declines and are recovering. The general awareness of health insurance has increased in China, translating to a 17% YoY growth in sales in Q1 2020 compared to Q1 2019. But for life insurance (or mortality) products, there has been a decline of 1 percent over the same period.

Further, auto and liabilities policies slowed dramatically, affecting property and casualty (P&C). Almost two-thirds of agents who were part of the McKinsey survey experienced a decline in business performance due to the pandemic, whereas about one-fifth reported an improvement. Overall, the significance of digital is apparent to the industry, as the digital players were overall less affected than the traditional insurers by the crisis. Also, some digital platforms like WeSure recorded huge increases in their new user base. For example, WeSure added 25 million active users during the initial phase of the pandemic.

Before discussing the art of possible for the Indian insurance industry, let us first understand where did we stand in comparison to the overall global insurance market?

3. Indian Insurance: Pre-pandemic standing

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[10] https://bfsi.economictimes.indiatimes.com/news/insurance/61-yoy-growth-reported-by-standalone-health-insurers-kotak-equities/77068092

[11] https://www.pwc.in/assets/pdfs/services/crisis-management/covid-19/covid-19-impact-on-the-indian-insurance-industry.pdf

[12] https://www.mckinsey.com/industries/financial-services/our-insights/what-insurers-can-learn-from-chinas-continuing-covid-19-recovery

According to the IRDAI, India had a meager share, just 1.92%, of the global insurance market in 2018.[13] This percentage is a little better, 2.61%, for the life insurance business. The Indian market witnessed a 9.3% increase in premium (inflation-adjusted), much higher than the 1.5% increase in the total global premium during 2018. The low maturity of the overall insurance industry in India is visible by the percentage of total premium collected in life and non-life insurance businesses. In 2018, the ratio of the share of life and non-life businesses in the total premiums collected globally was 54:46. But the same ratio for the Indian market in 2018 was 74:26 suggesting a larger bias towards life insurance.

Even though the Life Insurance business is leading the way in the Indian market, India ranked at 10th spot among the 88 countries for which Swiss Re published data in 2018. The ranking for the non-life insurance is 15th as per the same data. Though the recent picture does not look too rosy for the industry, experts have high expectations from the Indian insurance market. In mid-2018, Munich Re estimated that India to be one of the top growth markets and forecasted an average annual growth rate of over 9% (7% in real terms) in property-casualty insurance and over 10% (8% in real terms) in life insurance till 2030.

4. Indian Insurance: Post-pandemic possibilities

We may see the Indian Insurance landscape change very rapidly given that the pandemic and uncertainties that came along. The insurance industry must target the hugely unserved and vastly underserved customer bases to extract its full potential in the next 3-5 years. India has over 96% unpenetrated (figure 3) insurance market, which is one of the largest among its peer economies. The absolute numbers are mammoth due to the population, and there is an enormous growth potential for the Indian insurance sector.

[13] https://www.irdai.gov.in/

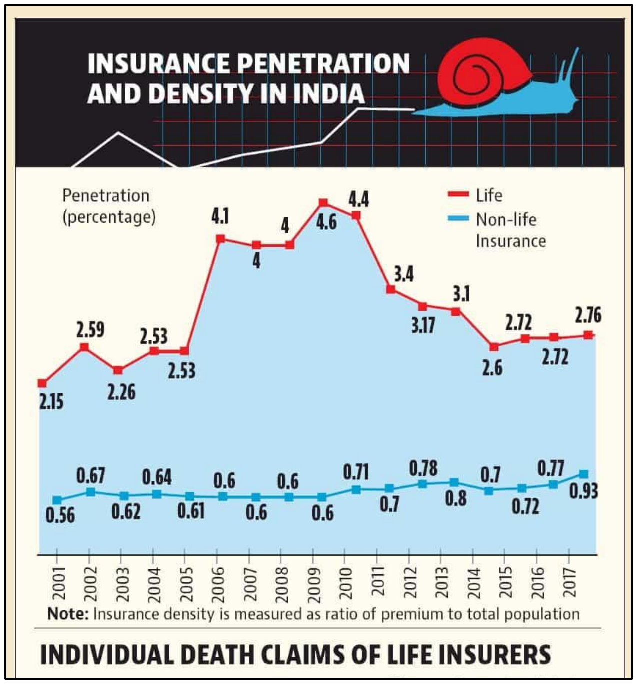

Figure 3: Insurance penetration between FY 2001-2017

(Source: IRDAI Annual Report 2017-18)

Improving customer awareness and touchpoints (channels)

Insurance companies need to find innovative ways to penetrate deeper and create non-traditional customer touchpoints in India. Looking beyond the traditional channels is also a need of the hour. In that context, partnerships like the one between BSE Ebix and Bajaj Allianz Life will be a necessary step towards increasing the year-on-year growth in New Business Premium (NBP) beyond last year's 37%. India’s Insurance density is a meager USD 60 per capita, just one-sixth of China’s insurance density.

Mergers and consolidations

We may see some key mergers between major players even though the government called off the merger of the three ailing PSU general insurers – Oriental Insurance Company, National Insurance Company, and United India Insurance Company – on 8th July 2020.

Becoming agile and digital

Further to that, there may be a shift that we may witness in the overall market size and share. Leading players may lose market share they have been so comfortably sitting on unless they become adaptive and introduce digital, agility, and innovation in their services. We may see new regulatory policies introduced by IRDAI in the light of the changes and uncertainties related to COVID-19 including the remote working option for agents and digitization of many processes.

4.1 The Major League: Time to be agile and innovative

Adopting innovative agility

The leading insurers will have to change their cultures to promote innovative thinking and incorporate agility in their DNA. They will need to think like start-ups continuously bringing in innovative features and solutions to add new customers continually. With low awareness and penetration of insurance in the country, it is a perfect time to launch creative marketing campaigns to enter the consumers' evoked set.

Upgrading the underwriting process and product portfolio

Companies would like to explore new products and services targeted to the various customer segments. The current underwriting process and systems require serious revamp. Also, there is an urgent requirement for introducing more (flexible) products. We may see insurers introducing products in their offerings portfolio to meet a broader range of financial needs of the existing and new customer segments.

Building a robust digital backbone

Digital transformation/reinvention based on the disruptive power of ISMAC (digital) technologies will play a crucial role in transforming the Indian insurance industry - channels, consumer experience, and stages of the lifecycle.[14] Organizations will continue to invest in digital tools and advanced analytics. A newer and enhanced distribution model will allow agents to work with a broad set of digital capabilities to enable seamless interactions with customers across channels. Insurers may go omnichannel in a true sense, where consumers can drop and pick up their application and claim processes seamlessly at any channel they want. Agents may get enhanced remote-working capabilities with enhanced digital tools to perform product illustrations.

To meet the pandemic-driven customers' protection needs, insurers need to adopt technology to foster better communication with customers through features like screen-sharing and videoconferencing. Insurers will also need to meet the regulatory requirements, including identity verification and multi-party electronic signature collection through digital solutions like DocuSign.

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[14] ISMAC stands for **I**nternet of things (IOT), **S**ocial media, **M**obility (mobile), **A**nalytics, and **C**loud computing.

4.2 The Minor (Start-up) League: The disruptors to work as the change agent

Mushrooming of smaller players and start-ups catering to specific areas and augmenting existing businesses. Existing banks and financial service providers may enter the insurance business by introducing innovative and customized products or by acquiring stakes in start-ups. It's also time to rapidly create and release innovative and custom products for the comparatively nascent Indian insurance market and consumer mindset.

The Insurance Technology (InsurTech) market can see rapid growth catering to specific types of insurance products. Examples like WIMWISure, which automates physical asset inspections through artificial intelligence using photos and videos in a few minutes, will be more common in the coming years. Social (Peer-to-peer) Insurance solutions may grow in specific geographies based on technologies (blockchain, internet of things, and artificial intelligence) to tap into the advantages as an incumbent onto the journey towards a cognitive enterprise while providing trust to the digital medium.

We may see significant funding in the InsurTech start-ups given the socioeconomic changes and increased awareness towards insurance. Recently Plum, an InsurTech that provides health benefits to corporates with high quality and affordable employee health insurance, has raised INR 7 Crores in seed funding.

4.3 Regulatory Changes:

Welcoming foreign players: Catalyst to expedite the industry growth post-COVID

In 2014, the central government had approved an ordinance to increase Foreign Direct Investment (FDI) limit in the Insurance sector from 26% to 49%, which helped attract investment. The Union Budget 2019-20 permitted a 100% FDI for insurance intermediaries. It may be interesting to see if the Government and IRDAI will provide sweet deals to foreign players to expand in the Indian market or partner with Indian insurers to penetrate the untapped Indian insurance industry potential. The pandemic has already helped consumers realize the need for insurance products. The international players may change the pace of the market growth – competing with existing players.

Mandating specific insurances products

The premium rates of health insurance are comparatively lower than those in developed countries since higher rates would discourage the already low number of policyholders in India. But as the voluntary insurance model is followed in India, in general, the employers do not have the liability for providing health insurance coverage to their employees. A mandated model similar to the US may be brought in for employers above a specific size.

As a result, providing health insurance coverage to employees is the employer's responsibility, not only during the period of employment but also during the period when the employee has resigned but is yet to find another job.

Conclusion

The insurance industry is at crossroads, ready to sprint ahead. Whatever be the final composition of the market, the evolution will be an interesting one to observe. And the evolution will be steered by answers to some fundamental questions. First, will the Indian insurance industry take the early adoption policy of experimenting with new technologies and transforming their business processes? Second, will IRDAI or respective insurance associations such as Life Insurance Council play a similar role to what the Association of Mutual Funds in India (AMFI) played for mutual fund growth in India? Finally, but most importantly, can we change the Indian consumers' mindset towards including insurance products in their balanced financial portfolios for risk hedging and not just for tax relief (saving) purposes?

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