India Insurance

GOING FROM TEENS TO TWENTIES

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INDIA INSURANCE

GOING FROM TEENS TO TWENTIES

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CONTENTS

EXECUTIVE SUMMARY

The Indian Insurance Industry has Developed on Multiple Dimensions in the "Teens"

In its 'Teens'—the second decade after liberalization, the Indian insurance industry has been shaped by significant shifts in the distribution landscape, product mix, and changing competition landscape. Life insurance and non-life insurance segments have experienced different growth trajectories. While the non-life insurance segment grew at a nearly consistent growth rate, the life insurance segment spent the first half of this decade restructuring its model in response to the regulatory changes at the start of this period, with a return to growth only in the last few years. A few highlights of developments in the industry over the last decade are:

- Bancassurance channel gained prominence and open-architecture became a reality
- Digital sales gained momentum through direct-to-customer and web-aggregator channels
- Implementation of social security schemes and crop insurance scheme by the government enhanced penetration of insurance in mass market segments
- Public sector insurers lost share
- Insurance industry witnessed 6 IPOs with market capitalization touching INR 300,000 crore
- Digital trends gained root in the latter part of the past decade promising a large impact in the coming years

A few expectations remain unfulfilled, for example, stronger focus on the end customer, product innovation at scale, increase in agency productivity, and significant enhancement in business processes.

Digital Will Be at the Core of the Industry's Transformation in the '20s

Fundamental growth drivers for the industry remain intact. The annualized new business premium in the life insurance segment will grow at a CAGR of 14 to 15 percent over the next 5-6 years. With corresponding growth in total premium, the assets under management in the life insurance segment are set to double and cross $ 1 trillion over the same period. In the non-life insurance segment, the growth will not only be driven by secular socio-economic development trends but also by greater penetration in the middle of the pyramid and premium rate increases in select sub-segments. The non-life insurance segment will grow at a CAGR of 15 to 16 percent over the next 5-6 years to reach around INR 4 lakh crore.

Digital trends will be a key catalyst for growth and more importantly, will be at the core of the industry's transformation. Insurers will need to drive digital-led transformation across 10 major themes to unlock growth, improve business economics, and deliver superior customer, distributor, and partner experience:

1. Innovate products and build solutions to create 'pull' and unlock growth

2. Reinvent agency through excellence in core levers coupled with digital and data enablement

3. Introduce next-gen bancassurance practices with digital enablement of sales

4. Drive digital sales with a holistic digital marketing approach and by reimagining digital purchase journeys

5. Target mass market at scale by leveraging expanding digital infrastructure, rising smart-phone penetration, and increasing digital influence on customer behavior

6. Reimagine and digitize customer journeys end-to-end for enhanced customer experience and leaner, lower cost business models

7. Implement analytics use cases at scale across the value chain

8. Build digital partnerships and engage in digital ecosystems

9. Engage with InsurTechs through variety of models including incubators, partnerships, and strategic investments

10. Leverage digital transformation as a key lever for value creation

The challenge—or opportunity—for insurers lies in determining the concrete steps they should be taking right now to drive digital transformation. Insurers successfully undertaking digital transformation will capture a disproportionate share of value in the future.

Enablers for Winning in ‘20s—Build Insurance Policy Against the Risk of Disruption

Insurance industry is more susceptible to digital disruption than most other industries. To mitigate the risk and to maximize results from digital transformation, insurers will need to create multiple enablers:

1. Build a customer centric mindset: Focus on solutions, personalization and digitally enabled engagement
2. Build bionic distribution: Leverage digital and data as a ‘force multiplier’ to enhance human interactions improving productivity and quality
3. Accelerate process digitization and automation by deploying next generation technologies such as RPA, AI, and ML
4. Setup ‘next generation’ technology function, which sits at the core of a digital-led model
5. Rewire business using analytics at scale
6. Adopt ‘truly agile’ way of working for rapid roll-out of digital transformation initiatives
7. Cascade digital mindset and innovation focus across the organization
8. Reposition insurance through a sustained industry-wide campaign to create ‘pull’

Policymakers and the regulator will play a crucial role in enabling the insurance industry to innovate and to thrive in the ‘20s. The regulatory / government agenda will need to cover the following among other initiatives:

1. Drive reforms in public sector insurance companies
2. Deepen penetration of insurance through social security schemes
3. Help address product-need gaps by enhancing coverage of social security schemes and encouraging cross-pollination of product innovation
4. Devise policies to attract further capital flow to the industry
5. Encourage innovation: Broaden the sandbox initiative, evaluate relaxation of strategic investment norms
6. Implement robust risk-based capital regime in timely manner
7. Facilitate dynamic underwriting for enabling further product innovation

8. Create and encourage adoption of digital infrastructure and industry-wide data platforms

The coming decade will demand energy, agility, and ever increasing maturity from insurers to realize the promise of sustained growth. Insurers will need to adapt to the fast evolving reality and invest in themselves as well as their partners to win in the ‘20s.

REFLECTIONS ON THE JOURNEY FROM CHILDHOOD TO ADULTHOOD

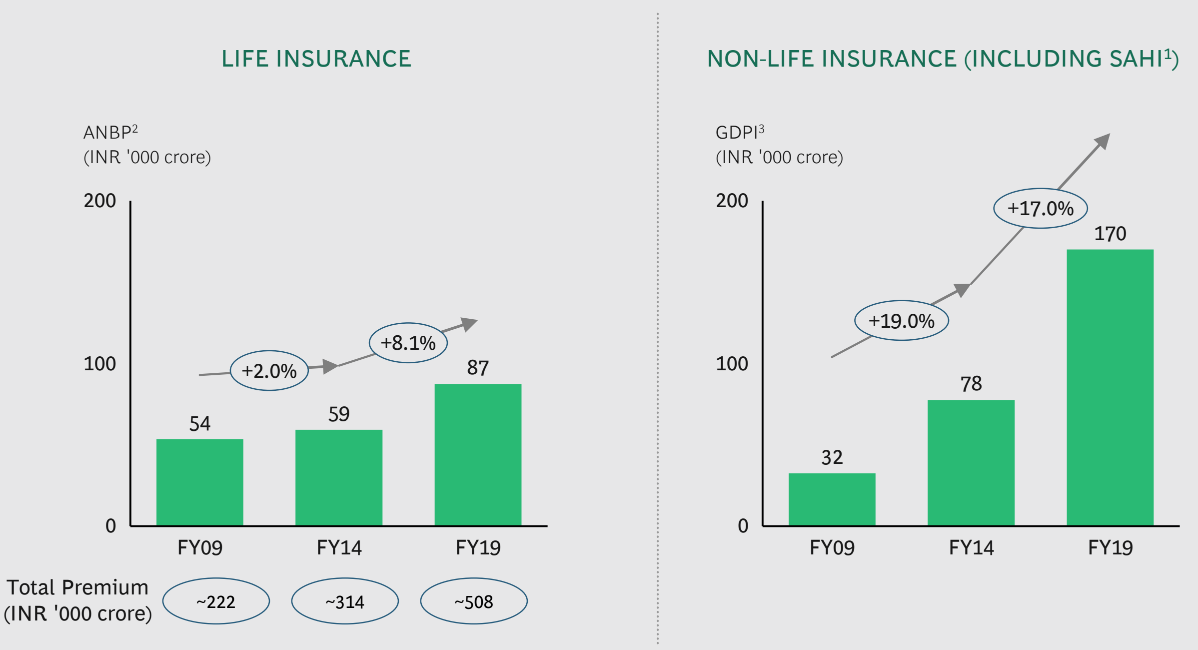
IT HAS BEEN NEARLY 19 years since the insurance industry in India was liberalized. As we look forward towards entering the '20s, it is time to reflect and introspect on the journey of the industry from childhood to adulthood. The changes may go unnoticed from month to month, or even year to year, but if one takes a step back and compares the industry landscape of 2019 to that of 2009, the differences are striking. In the second decade—'The Teens'—after liberalization, the Indian insurance industry has significantly developed on multiple dimensions. The changing face of insurance in this decade was shaped by significant shifts in the distribution landscape, change in product mix, increased coverage of government sponsored schemes, intensified competition, changing investor landscape, and most importantly the digital trends, whose impact will be even more prominent in the coming years.

Growth in the Teens—Life Insurance and Non-life Insurance Segments have Experienced Different Trajectories

In the last decade, the growth trajectory in life insurance and non-life insurance has been vastly different. In the life insurance segment, despite rebound in growth in the past 4 years, numbers for the decade (FY09[1]-19) paint a picture of slow growth. Between FY09 and FY14, the life insurance annualized new business premium (ANBP) grew at a compounded annual growth rate (CAGR) of 2.0 percent. The growth gathered momentum from FY14 to FY19 as ANBP grew at a CAGR of 8.1 percent (as shown in Exhibit 1). Between FY09 and FY19, life insurance penetration, a ratio of insurance premium to GDP, has fallen. Insurance density, a measure of premium per capita, has barely grown. This is in sharp contrast to euphoria around the turn of the decade caused by explosive growth in Unit Linked Insurance Products (ULIPs). The life insurance segment spent the first half of this decade restructuring its model in response to the regulatory changes at the start of this period, with a return to growth only in the last few years.

The non-life insurance segment on the other hand, has grown at a sustained pace. The Gross Direct Premium Income (GDPI) has increased by 5.7 times between FY09 and FY19, with nearly consistent growth of 19.0 percent CAGR between FY09 to FY14 and 17.0 percent CAGR between FY14 to FY19. In this period, insurance density has nearly trebled and insurance penetration has increased by more than 50 percent. Premium in consultative health & personal accident (PA) products has grown at a CAGR of 21.0 percent over the decade.

EXHIBIT 1 | Different Growth Trajectories in Life and Non-Life Insurance Segments



Source: IRDAI, General Insurance Council, Life Insurance Council, Company Public Disclosures
1. SAHI—Stand-Alone Health Insurance companies
2. ANBP—Annualized New Business Premium
3. GDPI—Gross Direct Premium Income (within India)

Distribution—From Agency to Multi-channel

Industry footprint—Diverging trends in life and non-life insurance segments

In most traditional brick and mortar service industries, growth is accompanied by a corresponding increase in physical presence. The insurance industry was no exception in the first decade after liberalization, when the industry expanded its footprint exponentially. The number of life insurance company offices multiplied from 2,199 in FY01 to 11,815 in FY09, and non-life insurance company offices increased from 4,024 to 6,160 in the same period. However, by FY19, despite the overall industry growth, the number of life insurance company offices reduced to 11,280 and non-life insurance company offices grew at a slower CAGR of 7.3 percent to 11,547 (as shown in Exhibit 2). Nearly 50 percent of the non-life insurance segment offices belong to public sector general insurance companies (PSGICs). Potentially, after the proposed merger of 3 PSGICs, the branch footprint of PSGICs may reduce due to rationalization.

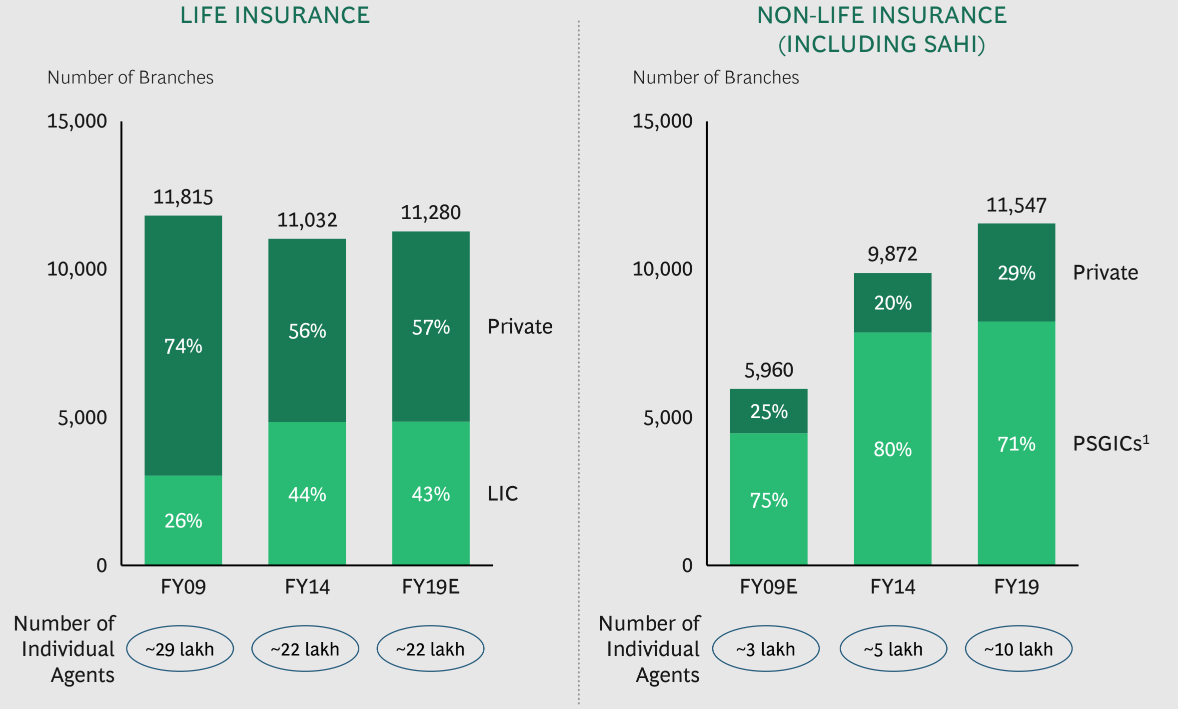
Individual agents can be considered as an extension of an insurance company's on-ground presence. Between FY09 and FY19, the number of agents in the life insurance segment has declined by 24 percent. In comparison, the number of agents in non-life has increased three-fold, at a CAGR of 14.0 percent (as shown in Exhibit 2).

The change in the footprint is driven not only by increased reliance on corporate agents, brokers and bancassurance partners but also due to the need to control operating costs. During the decade, the insurance industry has also emphasized on variabilization of costs, i.e. to convert fixed costs into variable costs. One example of this is the increased hiring of contractual manpower.

Evolving channel mix—Non-agency channels gaining dominance

In the first decade after liberalization, the major shift in the insurance distribution landscape was the rapid development of new channels such as bancassurance, corporate agency and broking (including auto dealerships) beyond direct and individual

Exhibit 2 | Changing Footprint of Life and Non-life Insurance Segments



Source: IRDAI, Company Public Disclosures, General Insurance Council, Life Insurance Council, BCG Analysis
1. PSGICs—Public sector general insurance companies that include four general, AIC and ECGC

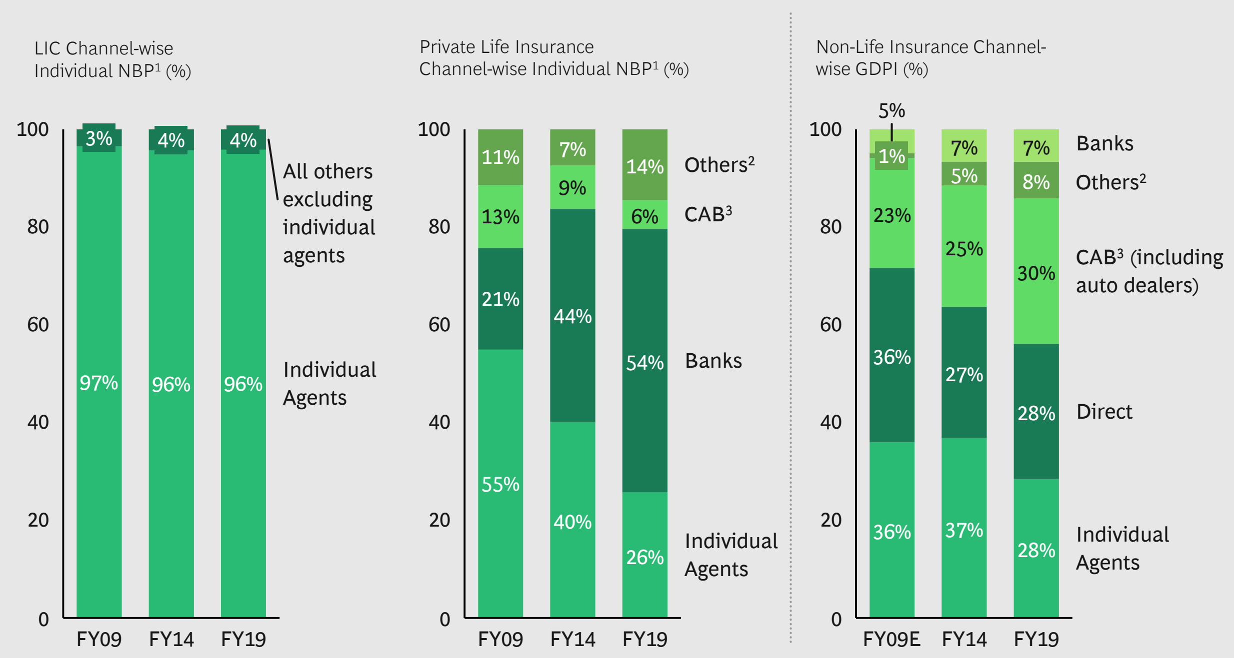
agency channels. During the last decade, the distribution landscape altered significantly due to combined force of regulatory actions, impact of channel productivity and channel economics, and rising role of digital modes. During the last decade, as the industry (especially life insurance) struggled with high costs of the agency channel, the industry shifted its focus away from individual agents to leveraging corporate partnerships. In private sector life insurance companies, the contribution of individual agents in individual new business premium has reduced from nearly 55 percent to 26 percent between FY09 and FY19. Likewise, in the non-life insurance segment, the contribution of individual agents in the same period has reduced from 36 percent to 28 percent (as shown in Exhibit 3). In comparison, bancassurance has witnessed rapid growth with the share of individual new business premium from bancassurance increasing from 21 percent to 54 percent between FY09 and FY19 in private sector life insurance companies. In non-life insurance segment, bancassurance channel contribution has grown from 5 percent to 7 percent between FY09 and FY19.

Key turning points in development of the distribution landscape

The decade also witnessed a number of significant developments with respect to distribution that shaped the changing distribution dynamics and have set the tone for the coming decade.

Open-architecture in bancassurance: In a significant development, open-architecture in bancassurance was allowed from FY17, where banks were allowed to enter into corporate agency alliances with up to 3 life, 3 non-life and 3 stand-alone health insurance companies. Initial impact of this is now becoming visible. From one-to-one exclusive relationships, multi-tie bancassurance partnerships are evolving. Exclusive access to bancassurance partners was a competitive advantage for many insurers. This has changed to a hyper-competitive landscape with banks and NBFCs now tying up with multiple insurance partners. First mover advantage continues to be important but late entrants are gaining considerably.

Exhibit 3 | Channel Mix—Decline in Agency Share



Source: IRDAI, Company Public Disclosures, BCG Analysis
1. NBP—New Business Premium
2. Others include businesses channelled through online, micro agents, Common Service Centers and Insurance Marketing Firms
3. CAB includes corporate agents and brokers

Web-aggregators and online channels: Another major development of the past decade is the emergence of digital direct-to-customer channels and web-aggregators. These channels have witnessed exponential growth due to increased online footprint, increasing digital influence among customers, and convenience of comparing quotations in case of web-aggregators. Insurers are also starting to engage with third party digital partners such as e-commerce websites, online travel portals, car sharing apps, and online payment companies to 'bundle' and cross-sell insurance. Digital distribution for life and non-life insurance together is estimated to be INR 3,000 to INR 3,500 crore in FY19, which, though small, is the defining trend of the latter part of last decade with potential to disrupt insurance distribution in the future.

POSP (Point of Sale Persons): IRDAI first issued POSP channel guidelines in October 2015 with the objective of facilitating the sale of certain simple pre-underwritten products with predefined coverage limits that are typically sold across the counter. This has enabled distributors to extend their reach and scale and achieve greater penetration, especially in previously under-penetrated market segments.

Motor Insurance Service Providers (MISPs): Since November 2017, IRDAI guidelines permit motor vehicle dealers to act as licensed insurance distributors with tighter norms around channel payouts. This has altered the channel and product economics, helping reduce pay-outs on policies sourced through auto dealers, in addition to lowering own-damage premium component in some vehicle segments. However, the net impact on the combined operating ratio has been marginal.

Product Mix—Driven by the Regulator and the Government

Shift in product-mix—"Alexa, where is insurance product innovation?"

In a young market, product-mix change is usually influenced by trends in product innovation, nature of demand, and product economics. However, in India, it is the regulatory actions and government impetus that have been the major drivers of change in the product mix.

In the life insurance segment, IRDAI introduced regulations in FY10 to curb mis-selling and to address skewed commission structures. As a result, the proportion of traditional (non-linked) products increased significantly across the industry.

In the non-life insurance segment, increase in third-party liability (TP) premium rates by IRDAI across different vehicle categories since FY12 has helped the market growth significantly. The proportion of TP component within motor insurance premium has increased from 37 percent in FY09 to 59 percent in FY19, corresponding to nearly 7 percent point shift in overall product mix (as shown in Exhibit 4). Long-term TP policies, which were introduced in FY19, will arrest the decline in the penetration of TP policies after first year especially in the two-wheeler segment and further increase the proportion of TP in the product mix.

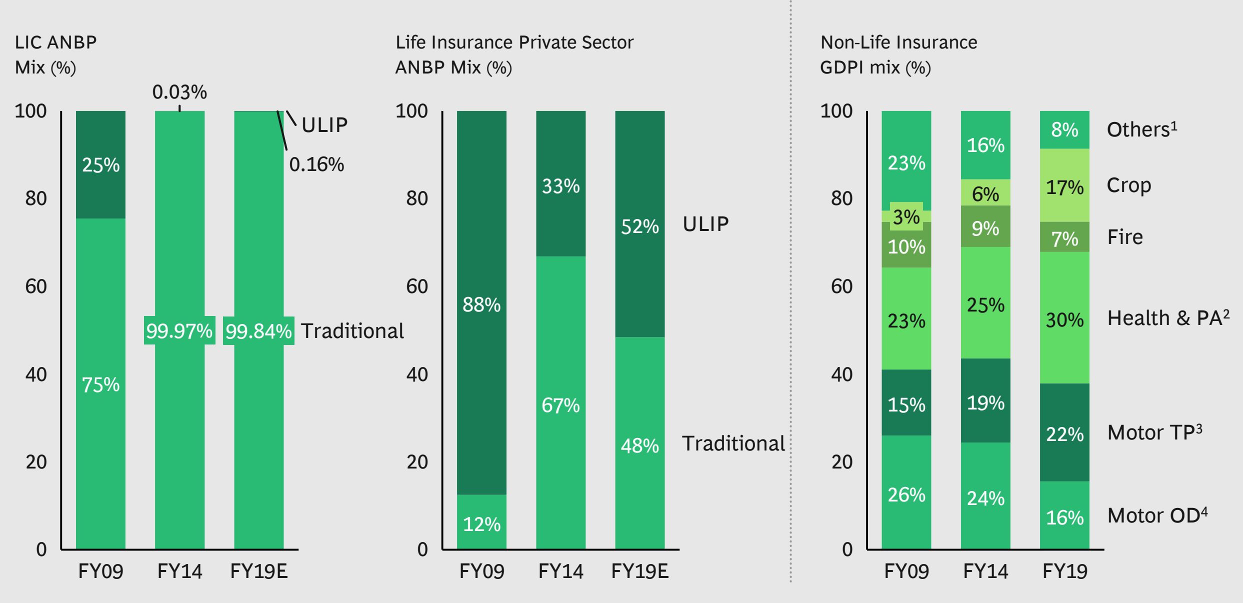
Crop insurance now amounts to nearly 17 percent of the GDPI largely due to Pradhan Mantri Fasal Bima Yojana (PMFBY) (as shown in Exhibit 4). On the other hand, despite highly adverse product economics, large discounts persisted in lines of business such as fire and group health due to competition until price increase for some of the major property risks was influenced by GIC Re in FY20.

The next chapter of the report presents key findings of the BCG-FICCI customer survey, which indicates that customers are keen to purchase innovative, customized products. With the support from the regulator, the industry must address this need in the coming decade.

Rapid growth in health insurance—"Sahi Hai"

India is largely underinsured or uninsured across different insurance segments, particularly in health insurance. A significant part of healthcare expenditure in India is out of pocket. Between FY01 and FY09, the health insurance coverage increased from

Exhibit 4 | Change in Product Mix



Source: IRDAI, Life Insurance Council, General Insurance Council, Company Public Disclosures, BCG Analysis
Notes: FY09 crop insurance premium is the gross direct premium of Agricultural Insurance Company (AIC)
1. Others include Marine, Liability, Aviation, Engineering, Credit guarantee and miscellaneous lines of business
2. PA—Personal Accident
3. Motor Third-party liability
4. Motor Own Damage

about 20 lakh lives to more than 2 crore lives. By FY19[2], that number has increased significantly to almost 20 crore. This is still the tip of the iceberg as a large proportion of the population still remains uncovered and underinsured. Health & PA lines of business have witnessed an 8-fold increase (CAGR of 21.0 percent) between FY09 to FY19, the fastest among major non-life insurance lines of business. The premium per person has increased significantly by more than 50 percent over the last 5 years.

Nearly 25 percent of the incremental GDPI in health insurance over the last 10 years has been sourced by 7 SAHI companies. In this period, SAHIs have grown nearly twice as fast as rest of the industry.

The salient drivers of the growth include rising medical costs, increasing awareness of the need for health insurance, availability of tax deductions on health insurance premium, agency license for stand-alone health insurance in addition to non-life insurance agency, distribution of health insurance products by financiers, and enhanced government sponsored health insurance programs.

Government schemes targeting the bottom of the pyramid—"Towards a fully insured society"

Financial inclusion has been a key policy focus of the government for many years now. Financial inclusion in insurance helps absorb shocks like unexpected health expenses and shields against the risk of loss of property. Rashtriya Swasthya Bima Yojana (RSBY) launched in 2008 was among a number of government schemes targeted at the bottom of the pyramid. From FY09 to FY14, the number of lives covered by these schemes increased from 5 crore to 15 crore. Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in August 2014, significantly addressed the gaps and challenges in providing banking services to those left out of the formal financial system. Banks have opened nearly 37 crore PMJDY savings accounts since its launch, and almost all households in the country are 'banked'[3]. These bank accounts have been used as an entry point for 3 major social security schemes introduced by the Government in May 2015—Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Atal Pension Yojana (APY). Over the years, these schemes have enrolled 16.7 crore, 6.3 crore and 1.2 crore people respectively, many of which belong to the bottom of the pyramid[4]. In 2018, the government launched 'Ayushman Bharat Yojana', a comprehensive indemnity health insurance scheme with sum insured of INR 500,000 targeting 10.7 crore families, which is about 40 percent of the Indian population.By FY18, about 36 crore lives were covered by government health insurance schemes[2].

The coverage of these schemes is substantial and yet significant headroom exists to increase the coverage further. In order to sustain and succeed, the schemes need to be viable for the insurance industry, and operational aspects such as timely payments of premium and settlement of claims will need to be improved.

Competition—"The Battle Has Intensified"

As with any growing industry in a young market, competition in the insurance industry has intensified further. What is interesting however, is that the trends in life insurance and non-life insurance are divergent.

In the life insurance segment, LIC remains a dominant player and contributes to nearly half of individual ANBP (as shown in Exhibit 5). It had lost significant market share to private sector players primarily due to the relatively higher sales focus on ULIPs by private sector players. However, LIC clawed back a sizeable share during the early part of the last decade, which it has ceded again. First generation private sector players, many with the advantage of large bancassurance partnerships, have gained substantial share in second half of the last decade. In the life insurance segment, only 2 new players entered the business after FY09, likely due to intense competition, limited bancassurance partnership opportunities, relatively higher capital investment requirement, and longer break-even period.

Non-life insurance on the other hand, has witnessed a more diversified competitive environment. PSGICs lost nearly 15 percent market share between FY09 to FY19, a large part of it being lost after FY14. SAHIs gained significant scale and share of 5 percent points (as shown in Exhibit 5). The industry also witnessed the entry of 13 players in the last decade.

An increasing number of players have turned profitable in the last decade (as shown in Exhibit 5). In FY09, 5 life insurance and 11 non-life insurance players were profitable. By FY19, 21 life and 20 non-life players have turned profitable. On an average, life insurance companies have taken 8 to 9 years to achieve break-even[5] whereas non-life insurance players have taken 4 to 5 years[6].

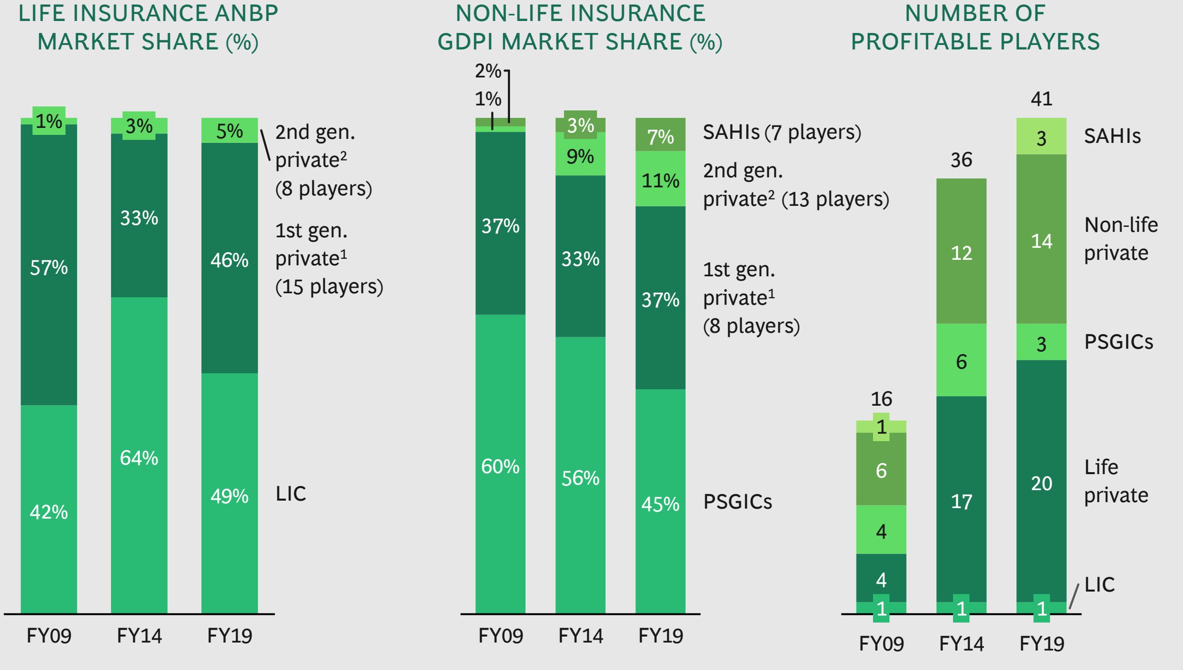
Changing Investor Landscape—“Reducing Reliance on Indian Promoters”

Increase in foreign investment limits: In the first decade after liberalization, a number of global insurance majors entered the Indian market through joint ventures with a long term commitment to the market. The move to increase the Foreign Direct Investment (FDI) limit from 26 percent to 49 percent was on the anvil for a long time. Increase in the limit has proved to be one of the major milestone of the decade. With the easing of the FDI cap, foreign promoters have increased their shareholding beyond 26 percent in 22 life and non-life insurance companies by FY19[2].

Initial public offering (IPOs): Another major development of this decade is the public listing of insurance companies. As many as 5 insurers (3 life and 2 non-life) and the re-insurer GIC Re are now listed on the stock exchanges. A number of financial services conglomerates with large insurance subsidiaries have also listed over the decade. Many more insurers have evaluated IPOs and are expected to list in the next few years.

Private Equity funding: The industry also witnessed increased activity of private equity funds. These funds have invested not only in new entrants but also in well-established insurance companies for a minority stake.

EXHIBIT 5 | Intensified Competition But More Players Profitable



Source: IRDAI, General Insurance Council, Life Insurance Council, Company Public Disclosures
1. Players that started operations by FY07, as of FY19
2. Players that started operations after FY07, as of FY19

The Misses of the Decade Gone By—"The Glass is Half Empty"

The insurance industry has gained maturity in this decade and has seen major positive developments across different dimensions. However, a number of expected developments were missed.

Customer pull based demand for insurance: Insurance, especially in life insurance and health insurance segments, continues to be a largely 'push' driven product. The industry is yet to make a sustained large-scale effort to increase customer awareness and create customer 'pull' based demand.

Agency productivity: The productivity of agents, especially in life insurance, has not increased as much as was expected. Overall, the number of life insurance agents has decreased from 29 lakh to 22 lakh between FY09 to FY19, while the per-agent productivity has increased only marginally at a CAGR of 3 percent after adjusting for inflation[7]. This trend is driven by tighter regulations around on-boarding, sales process, commissions, and limited success for the industry till date in driving agency channel productivity.

Product innovation: While niche products like flight delay insurance, dengue insurance, mobile screen damage cover, among others, are now available in the market, there has not been any material product innovation at scale.

Underwriting: Effective underwriting is key to unlocking industry growth and improving industry economics. The techniques of risk evaluation and assessment have not changed materially despite availability of diverse data sets and larger historical experience. Standard rating factors such as average mortality and morbidity rates, among others, are not fully reflecting the gradually changing reality. Data driven assessment and analysis of risk patterns like driving behavior, changing health conditions, lifestyle habits, and so on, are yet to become major factors in user behavior based pricing of the risk.

Inadequate partnership and collaboration between insurers and distributors: Intermediaries continue to tightly control access to customers by sharing limited customer information with insurers, mostly routing the renewals ultimately through them. With better collaboration and stronger partnership, insurers have the potential to leverage customer data for better offers and service, and to improve sales effectiveness.

Process automation and digitization: A large part of customer and distributor facing insurance processes remain manual and involve considerable paperwork. This often leads to longer turn around time, higher error rates, and customer complaints.

Mandatory listing: Mandatory listing, which was being considered for insurers which have completed 10 years of operation and stable financials, has not happened despite 24 private sector insurers crossing the 10 years mark.

Conclusion

Looking back over the last decade (FY09-FY19), the industry should feel proud about what has been achieved. Different stakeholders have played crucial role in the growth and increased maturity of the industry. The journey from childhood to adulthood has helped the industry and its stakeholders gain experience and solidify the foundation. It gives the industry a firm footing as it prepares for the road ahead.

NOTES

1. Financial Year ending in March
2. Source: IRDAI
3. Source: UIDAI, Ministry of Finance
4. Source: Ministry of Finance
5. Refers to the number of years after inception for the company to report positive profit after tax
6. Source: IRDAI annual reports, public disclosures of insurance companies
7. IRDAI, BCG Analysis

DIGITAL AT THE CORE OF INDUSTRY'S TRANSFORMATION IN THE '20S

THE INDIAN INSURANCE INDUSTRY is entering its youthful '20s. It is the decade that promises a potent mix of energy and change and, will demand ever increasing maturity to realize this promise. Growth fundamentals remain intact. However, digital trends will challenge the status quo. These, coupled with evolving customer and other stakeholder expectations will demand transformation of insurance business models. This chapter highlights key trends that are likely to shape the industry's future over the next few years, especially for insurers with aspirations of winning the '20s.

'20s—The Decade with a Promise of Sustained Growth

The 'Teens' witnessed steady growth in the non-life insurance segment across different product classes and lines of business. Life insurance has also seen a return to growth in the past few years. Many of the underlying drivers of growth continue to remain salient and the market still has significant headroom for growth given the level of under-penetration. The '20s present a promise of continued growth, however the growth rate is likely to vary across industry sub-segments due to sub-segment specific drivers.

LIFE INSURANCE—GROWTH DRIVEN BY FINANCIAL SAVINGS

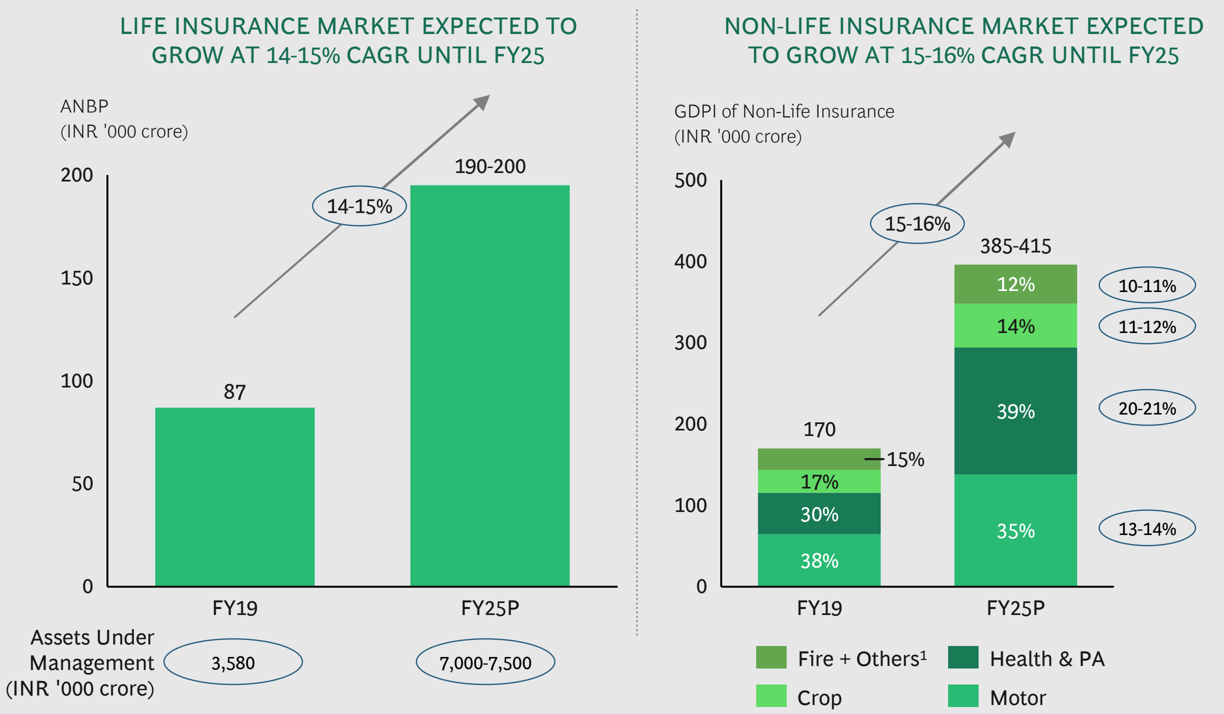
Life insurance continues to be a key component of household financial savings. Life insurance growth is correlated to GDP growth, extent of financial savings, and proportion of financial savings channeled to life insurance. With greater awareness of financial products (and lower returns in physical assets), larger proportion of household savings is getting channeled to avenues such as equity markets, mutual funds, and life insurance. From around FY15, the contribution of life insurance premium in incremental financial savings has increased by 3 to 5 percentage points[1]. It is estimated that ANBP will continue to grow at a CAGR of 14 to 15 percent over the next 5-6 years (as shown in Exhibit 6). Combined with accompanied growth in the assets under management, the overall life insurance assets under management will double to cross $ 1 trillion by FY25.

NON-LIFE INSURANCE—ALL-ROUND GROWTH AND DEEPER PENETRATION

Non-life insurance covers diverse lines of business relating to protection of assets such as property and vehicles, healthcare expenditure, and various individual and business liabilities. Drivers of growth in each sub-segment differ leading to varying growth rates.

Motor Insurance: Vehicle sales growth has significantly decelerated in the current financial year due to economic factors as well as impending introduction of BS VI emission

Exhibit 6 | Life Insurance and Non-life Insurance Segments to Grow Consistently



Source: IRDAI, Company Public Disclosures, BCG analysis
1. Others include Marine, Liability, Aviation, Engineering, Credit guarantee and miscellaneous lines of business

norms. In the medium term, vehicle sales growth is likely to revert to long term average levels that are linked to overall growth in the economy. The prices of vehicles are expected to increase due to introduction of BS VI pollution norms and over a period of time, this increase is likely to be passed on to customers impacting insurance premiums. Introduction of long-term motor TP cover will lead to significant increase in penetration among old vehicles, especially in the two-wheeler segment. As in the past, the TP premium rates will continue to get adjusted with an upward bias due to increasing trend in compensation awards. TP component is likely to witness higher overall growth as compared to own-damage component due to greater penetration and continued increase in premium rates.

Health & PA insurance: The individual health insurance sub-segment has witnessed significant growth in the last decade and yet with only 3.5 crore lives being covered as of FY19[2] , the market segment presents significant headroom for growth. Due to rising awareness, continued tax incentives, significant inflation in healthcare cost as well as increasing reach of distribution channels, the individual health insurance sub-segment will witness rapid growth of 22 to 23 percent (CAGR) over the next 5-6 years. Growth in the group health insurance sub-segment will be driven by secular growth in the organized workforce and higher penetration in the MSME segment. The premium rates in the sub-segment may also increase due to medical inflation and industry players' potential moves to reduce loss ratios. Ayushman Bharat Yojana has emerged as the flagship program with an objective to provide health insurance cover to 10 crore families. Depending on how the program evolves, the insurance market for government health insurance schemes may grow by 2.5 to 4 fold over the next 5-6 years.

Commercial lines of business: Coverage in commercial lines is highly correlated to growth in gross capital formation, infrastructure projects, trade, and overall growth in business activity. Commercial lines of business are expected to grow in line with the growth in underlying economy and increased penetration especially in the MSME segment. Given the loss ratio experience, the premium rates for specific types of risks witnessed significant upward correction earlier this year. As industry looks to control loss ratios, the premium rates will continue to grow in some of the sub-segments.

Digital Poised to Disrupt the Industry

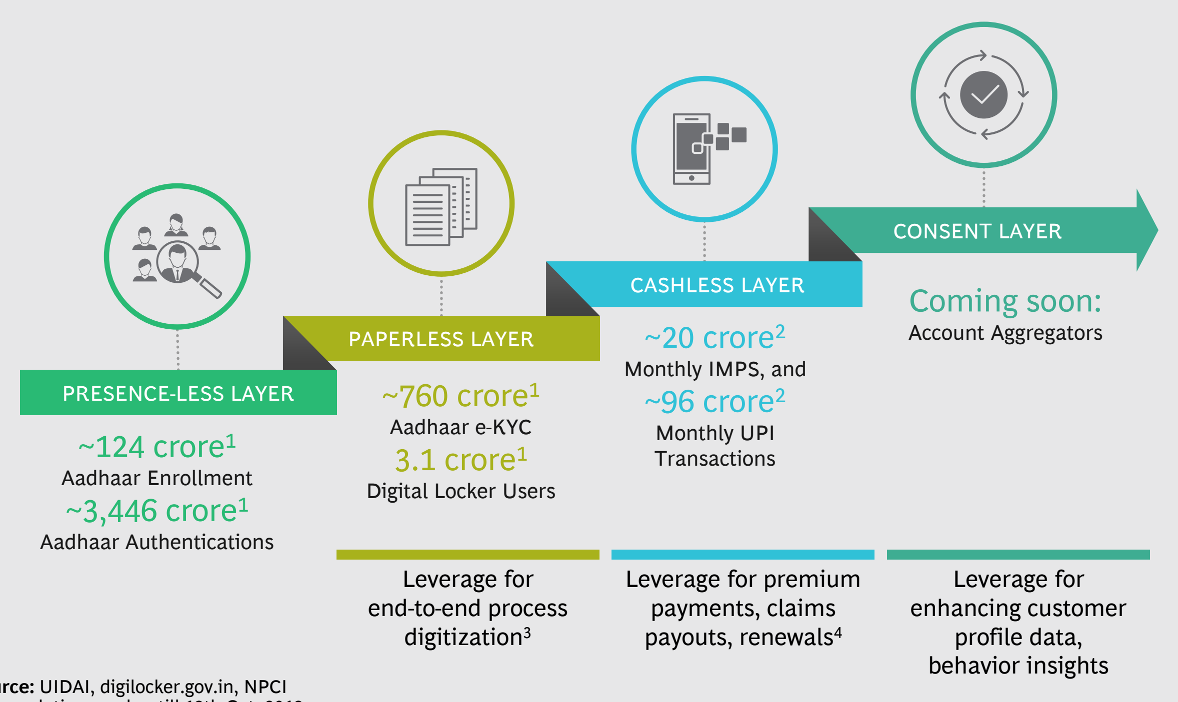
The insurance industry enters its '20s backed by digital infrastructure that is among the largest and most robust in the world (as shown in Exhibit 7). Additional policy initiatives (for example, account aggregators) will continue to create a facilitative environment. All this, coupled with a large and rapidly growing base of digitally connected customers (that continue to mature in their digital behavior) and data costs that have seen drastic reduction, create a conducive environment for disruption in the insurance industry. Globally, BCG's assessment of sectors at risk of digital disruption puts non-life insurance very high on the scale with life insurance not too far behind.

Digital holds the potential to increase productivity of the core business (for example, 30-40 percent higher in the agency channel), optimize costs (for example, 30-50 percent lower costs for processing claims through a digitized process), enhance customer experience (for example, 60-80 percent lower turnaround time), improve business quality (for example, 12-15 percent higher renewals backed by an analytics driven program), and unlock new sources of growth (for example, through partnerships with digital players outside insurance).

Customers and Other Stakeholders are "Demanding" Transformation of Insurance Business Models

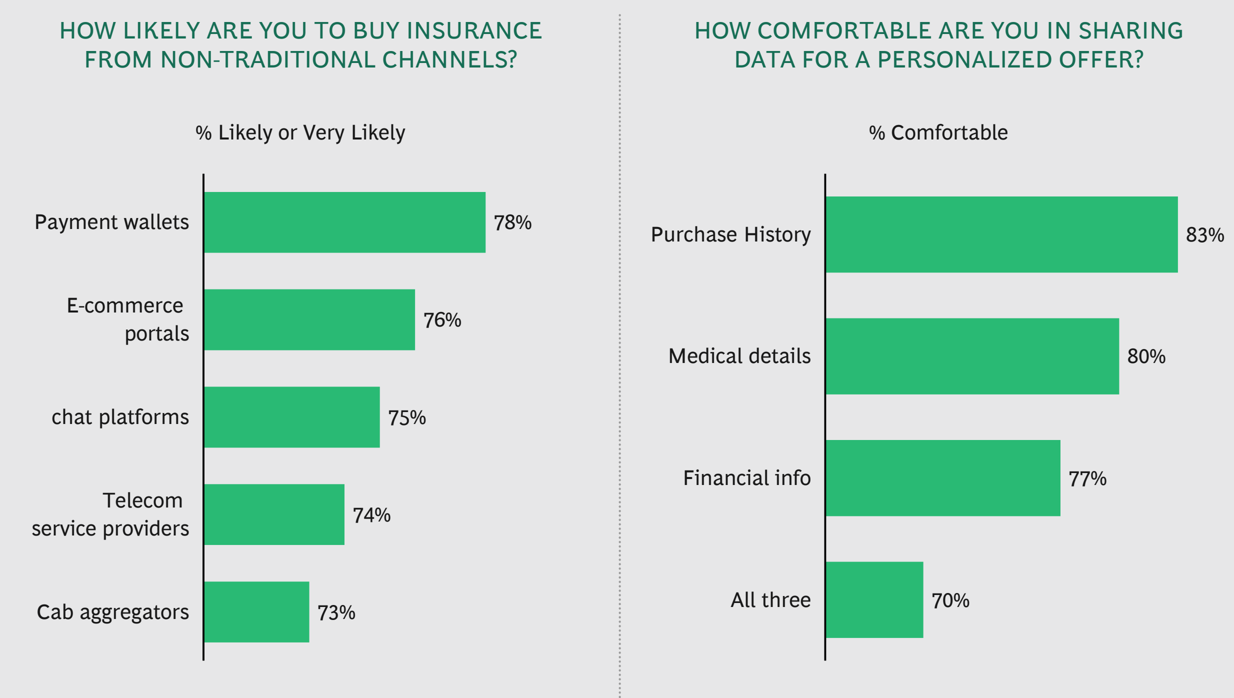
Customer expectations and behaviours are also evolving rapidly (as shown in Exhibit 8). Their experience with non-insurers is shaping their expectations from insurers. Today, most customers' current experience with their insurer is characterized by a complicated buying process, ambiguous underwriting procedure and then an uncertain claims process. For customers whose experiences are increasingly getting shaped by their interactions on Uber, Paytm, Amazon like platforms—the insurance experience is sub-standard.

Exhibit 7 | Insurers Can Significantly Leverage Rapidly Developing Digital Infrastructure in the Country



Source: UIDAI, digilocker.gov.in, NPCI
1. Cumulative number till 19th Oct, 2019
2. Data for the month of September 2019
3. Subject to continuation of e-KYC rules for the insurance industry
4. Insurers can also leverage other payment platforms such as AEPS, BBPS

EXHIBIT 8 | Digitally Mature Customers Are Ready for Non-traditional Channels and Personalized Offers



Source: BCG-FICCI Insurance survey (2019), n = 3,300
Note: Digitally Maturity defined basis number of categories consumer buys online: <=3 Low, 4-6 Medium, >=7 High

Customers are open to trying innovative products which better meet their needs and digitally mature customers are willing to share their data to avail of personalized solutions. Customer research and purchase behaviour is also changing. Over 70 percent respondents in BCG-FICCI customer survey are willing to consider buying insurance from non-conventional channels (for example, e-commerce websites).

Expectations of other stakeholders are also evolving. For example, the emergence of digital has started to significantly influence the needs and preferences of agents. As agents experience various user-friendly digital solutions in their personal lives, the expectations of similar solutions to improve their day-to-day business has continuously increased. In a recent survey of insurance agents in India conducted by BCG and Morgan Stanley[3], over 60 percent of agents felt that the sales process will be materially impacted by digital trends (as shown in Exhibit 9). The same survey also reported that 70 percent of agents were interested in using digital sales tools. However, over 75 percent of the agents also reported that there were gaps in the digital solutions offered by insurance companies. These are indicative of the changing demands of agents from insurers with evolution of digital. Select agent aggregators (for example, Turtlemint) have already started to leverage technology and offer end-to-end mobile platforms to agents to transact, engage and perform tasks. Overall, digital is starting to change the competitive scenario for the agency channel as well as reshape the ingredients required for building a robust and successful channel.

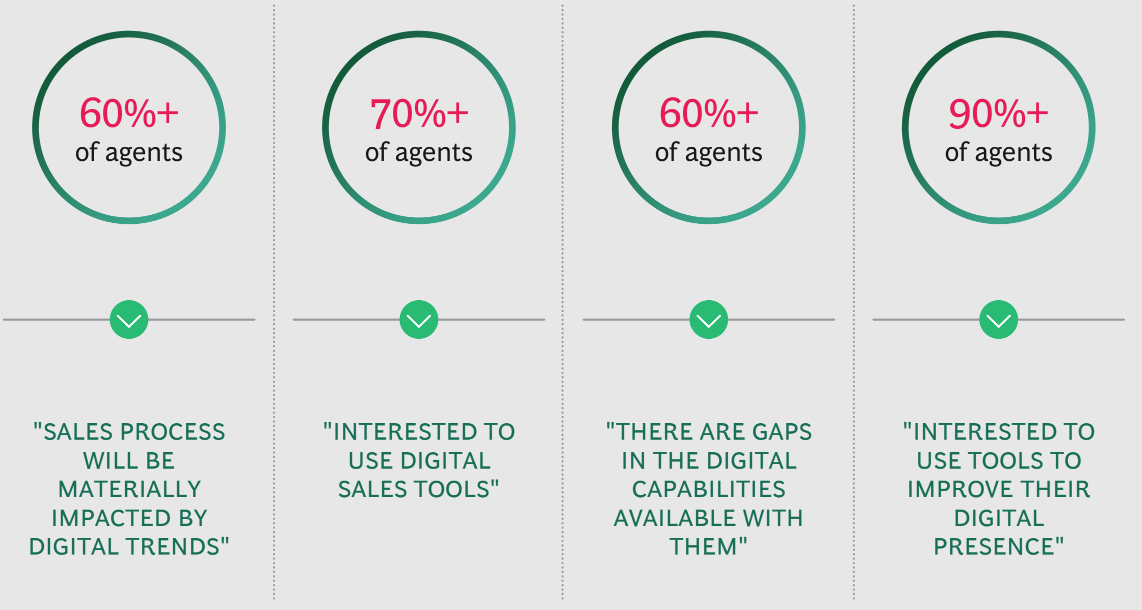
Winning in the 20s: 10 Key Trends that the Industry Needs to Act On

Against the backdrop of sustained growth but rapidly changing industry dynamics, insurers with winning aspirations need to transform their business model and act on the 10 key trends mentioned ahead.

1. PRODUCT INNOVATION TO UNLOCK GROWTH

Product development needs to be more closely aligned with evolving customer needs to make insurance more relevant and

Exhibit 9 | Agency in India Ready for Using Digital



Source: BCG Morgan Stanley Report, "Reinventing Life Insurance Agency Distribution Globally"

to create pull. This will unlock new segments and deliver sustainable and better quality growth.

BCG research indicates that customers are keen to consider innovative insurance products which better meet their needs. For example, ‘bite-sized’ products, tailored / customizable products, impaired life offerings have gained adoption in the international markets and could find traction in India as well. Basis recent research with customers in India, over 60 percent indicated interest in purchasing ‘bite-sized’ products and customizable solutions (as shown in Exhibit 10).

Customers are also willing to share their data to avail of customized solutions and personalized pricing. Insurers would do well to create responsible mechanisms to facilitate this with customers so that data privacy is maintained while they design solutions that better meet customer requirements.

In the BCG-FICCI[4] survey, customers also expressed high interest in non-conventional non-life insurance products with almost 50 percent customers saying that will most likely or definitely buy products like mobile insurance, jewelry insurance. While the immediate scale from these products might be low—as other markets have indicated, the opportunity can be material. For example, in the US, mobile handset protection has over 25 percent penetration.

The regulatory sandbox created by the IRDAI is a significant step forward in this regard as it offers insurers the opportunity to innovate in a focused manner and build proof of concept. Such a structure in other markets like UK has facilitated development of innovative solutions.

Insurers should avail of a more conducive regulatory environment and latent demand among customers to design solutions that help unlock growth. Making product development an important lever for growth is a critical strategic shift for insurers. This requires building a customer-centric mindset supported by research and product design capabilities.

Exhibit 10 | Customers Are Interested in Innovative Products Concepts

PROTECTION WHILE YOU EXPLORE

- Short tenure products
  - (1-2 years) protection products for low ticket sizes

"Insurance is a big commitment and requires detailed research to be done"

62% customers found it useful in India

Bestow — Bestow offers 2-year term life insurance without medical checks

Rakuten — Successful online 1-year life policy

DO-IT-YOURSELF INSURANCE

- Tailor products completely
  - Add/remove benefits (e.g., cover only most common diseases)
- Pre-sale and post-sale flexibility

"Existing insurance products don't cover my specific needs"

63% customers found it useful in India

Source: BCG analysis

2. Agency Reinvention: Excellence in Core Levers Coupled with Digital and Data Enablement

Agency will continue to be an important channel for the under-penetrated Indian insurance market. The channel, however, has traditionally suffered from critical challenges. Despite having sizeable agent base, many insurers suffer from low agent activation rates and thereby sub-optimal sales productivity at the agency manager level, hampering overall economics of the channel. In addition, evolution of digital is starting to change the competitive scenario for the agency channel as well as reshape the ingredients required for building a robust and successful channel.

Based on our experience with insurers, a two-pronged approach is required to reinvent agency and make it a sustainable channel for growth (as shown in Exhibit 11).

1. Excellence in traditional levers of sales management
2. Integration of digital and analytics into the core agency model

Excellence in traditional levers of sales management

Running a rigorous and structured sales management process can extract significant value from the agency channel for insurers. There are multiple areas that insurers need to focus on to achieve this:

- **Segmented targeting of new agents with customized value propositions**—Traditionally agent recruitment has focused on onboarding large number of agents agnostic of their profile. Identifying segments of high potential agents along with a structured onboarding process (for example, clearly outlined program for the first 30 days) can significantly bolster the activation and productivity of new agents.

- **Driving enhanced activation through structured engagement programs**—Focused training and engagement activities can help in improving activation as well as in driving productivity. This training needs to cover both agents and agency managers. As per the survey conducted with agents in India, approximately 60 percent of agents would like additional training support. In our experience with insurers in India,

Exhibit 11 | Significant Uplift Possible on Agency Performance

NEW AGENT RECRUITMENT EXCELLENCE

6-8% points increase in new agent activation

Drivers

- Analytics driven identification of 'preferred agent profiles'
- Customized segment specific value propositions
- Overall enhancement of share of preferred agent profiles

AGENT AND AGENCY MANAGER PRODUCTIVITY UPLIFT

30-35% increase in agency manager productivity

- Structured engagement program for agents and agency managers
- Rigorous sales management translated into 'daily rhythms'
- Personalized analytical triggers to prioritize actions

SUPERIOR PRODUCT MIX

5-6% uplift in share of high margin products

- Revamped performance metrics to drive specific behavior
- Personalized analytical triggers

Source: BCG project experience with insurers in India

a well-designed engagement and training program leveraging in-branch programs and digital tools could increase agent activation (of both, new recruits and earlier base of agents), drive sales of higher margin products and lead to a boost in agent productivity.

- **Building higher focus across the sales hierarchy on lead indicators**—Ensuring sufficient focus on lead indicators such as agent activation rates across the sales hierarchy coupled with appropriate enablers can unlock productivity. Well-designed review mechanisms and performance metrics for the sales hierarchy are an under-leveraged enabler for the channel.

- **Product mix optimization**—Given high fixed cost within the agency channel, it is important to optimize product mix to deliver desired margins. Select companies, which have driven increased share of high-margin protection products, have achieved this through a combination of levers (for example, product credits, gate qualifier for rewards & recognition, training).

Integration of digital and analytics into the core agency model

Chinese insurers (for example, Ping An) have demonstrated the adoption of technology and analytics at scale in the agency channel contributing to its rapid growth and increase in agent productivity. Ping An has leveraged technology to redesign recruitment, accelerate agent skill development, enhance agent management, enable effective interactions with customers increasing premium per agent by over 30 percent[3]. The experience in China is very relevant for Indian insurers as they aim to enhance productivity and build a viable agency channel at scale. For Indian insurers, a hybrid model complementing human engagement with the power of digital and analytics is a critical strategic priority not only to enhance productivity but to also create a more compelling proposition for a digitally active pool of agents. Select key interventions that can be targeted to integrate digital and analytics into the operating model include:

- **Focus on end-to-end digital journeys for agents and agency managers**—Move beyond digitization of just the issuance process and target all core elements of the value chain covering recruitment, training, pre-sales and post sales activities. This end-to-end digitization can not only enable ease for agents but also free up time spent by agency managers in administrative and non-value adding activities.

- **Personalized analytics driven action triggers for agency managers**—The power of data and analytics can be leveraged to identify 'next best actions' that are customized and are delivered seamlessly through a digital solution. Select insurers have seen meaningful results from such personalized triggers by leveraging these to prioritize actions for agency managers to drive desired on-ground engagement with agents.

- **Analytics backed agent segmentation**—Identification of high potential segments and their underlying profiles can be enabled through application of analytics on agent data. Analytics can be leveraged to clearly identify specific variables that are associated with higher potential agent profiles for effectively targeting the same. Clear segmentation of agents can also allow for customized learning pathways to reduce the time taken to reach peak productivity.

This two-pronged approach can deliver substantial impact on productivity and profitability, enabling insurers to build agency as a sustainable channel for growth.

3. Bancassurance 2.0: Evolution to a digital and data enabled model

Bancassurance will continue to be a large channel for life insurers and will assume increasing salience for non-life insurers. However, the model needs to evolve. A digital and data enabled model will increase productivity and, in an open-architecture scenario will facilitate higher share of business. This will also improve the quality of business.

There are a range of options for insurers to create a digital and data enabled bancassurance model including:

1. Enabling insurer sales teams with technology tools and analytics driven triggers
Currently sales management (including engagement with bank staff) is predominantly manual with minimal use of data and analytics. A well designed tech tool and process can enhance insurer sales person-bank staff engagement in terms of who to target, how frequently, how to pitch, and what to discuss. This integrated with a tech enabled review mechanism can facilitate more rigorous focus on the right activities and behaviours to drive sales. Analytics driven prompts can enable insurer sales teams to become more targeted in their interaction with bank staff driving higher activation and productivity.

2. Building digital sales in partnership with banks targeting the rapidly growing base of net banking and mobile banking customers
Currently this channel is significantly underleveraged in India. As global experience indicates, bancassurance is becoming more digital with insurers building digital sales models in partnerships with banks to target customers. This will require:

- Analytics (propensity models, triggers) to identify target customers that show higher potential for digital purchase, create pre-approved propositions (for example, pre-approved sum-assured offers that waive medical tests) and drive call to action

- Use of various digital channels to communicate the offer to the customer. Aligning this with analytics based channel propensity drives higher conversions

- Digital journeys cutting across the insurer and bank to drive seamless application and fulfilment. This includes insurance application forms pre-populated with data, journeys configured to ensure straight through processing with minimal clicks / inputs from the customer

- Use of call center integration, where required, for assistance during the purchase journey to reduce drop-offs

3. Collaboration with banks leveraging bank and insurer information to create multiple analytics use cases for acquisition and servicing
Globally, leading bancassurance partnerships are witnessing insurers and banks working together to create personalized solutions to

drive sales. This includes for example, predictive analytics to better match insurance solutions with target customers driving better productivity and reduction in mis-selling, using data to enhance underwriting, and enhancing servicing and renewals with a richer understanding of customer behaviour. This can help build win-win models for both, insurers and banks.

Our experience indicates that insurers in India which are successfully building digital bancassurance as a channel can achieve rapid growth. A leading insurer has achieved over INR 150 crore of sales within 2 years of starting the channel in collaboration with their bank partner—with high potential for sustained rapid growth in the future.

4. Digital sales: Not alternate but core

Digital distribution channels including direct-to-customer online interfaces of insurance companies and web-aggregators are seeing rapid growth off a small base. Over the next few years, these channels hold the potential to achieve material scale.

Growth will be driven not only by increasing internet penetration and low cost data but also by increasing digital influence on customer purchase behavior. Customers are increasingly getting comfortable with online research, comparison and end-to-end digital purchase journeys. The BCG-FICCI survey brings out a number of insights into digital customer behavior (as shown in Exhibit 12).

- 'Digitally mature' customers show distinctly higher propensity in using digital channels for insurance, which foretells how customer behavior will evolve in the next decade as digital maturity increases across a wider customer base.

- High digitally mature consumers are 5 times more likely to research and purchase insurance online as compared to low digitally mature consumers.

- 88 percent of customers who research online say that they develop basic understanding of the offer, however only 53 percent say that they understand the offer really well and are comfortable with all the terms.

- Insurance research behavior is nearly same in the metros and non-metros indicating that digital influence is no longer a phenomenon limited to a few cities.

Translating this digital influence into digital purchase at an appropriate cost of acquisition will require an end-to-end approach that drives relevant customers to apply for the product supported by a seamless journey to reduce drop-offs and drive high conversion. This includes:

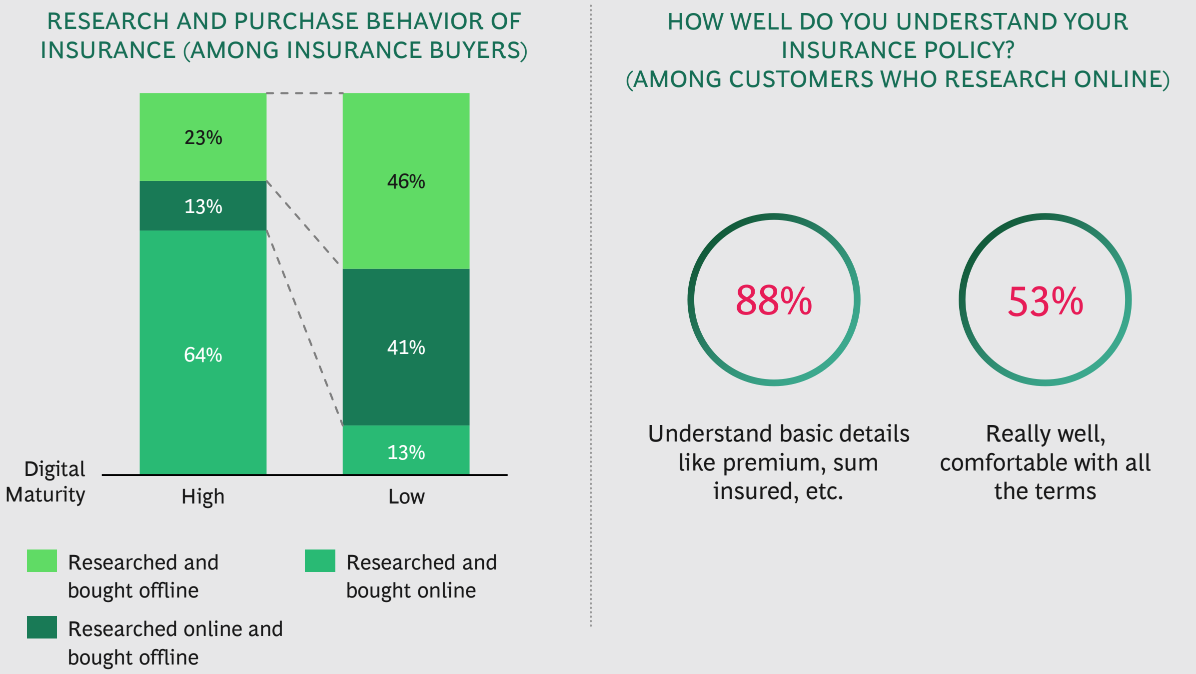
- A well designed digital marketing approach covering SEO, SEM optimization, and other sources including social media to drive relevant traffic to digital assets. While this will require coordinating with multiple partners including digital marketing agencies, insurers should also build these core capabilities in-house to drive digital sales in a cost-efficient manner. In our experience, optimally designed and executed digital marketing strategy can drive 25-35 percent difference in marketing effectiveness.

- Simple and intuitive explanation of the product features aiding the customer's discovery process. This includes even product recommendations that facilitate the online application process.

- Reimagined end-to-end digital customer journeys, which not only entail fast, self-sufficient digital interfaces but also automated, straight-through underwriting and sales-fulfilment processes.

- A call center integrated with the purchase journey since majority of life and health insurance purchases are assisted given relatively higher complexity compared to motor or travel insurance. A well designed call center process will use the right set of analytics and tools to prioritize leads and allocate it to the correct caller to drive important metrics like utilization, call

EXHIBIT 12 | Insurers Need to Align Digital Sales Model With Evolving Customer Behavior



Source: BCG-FICCI Insurance survey (2019), n = 3,300
Note: Digital maturity defined basis number of categories consumer buys online: <=3 Low, 4-6 Medium, >=7 High

back time and maximum conversions. In addition, this needs to be supplemented with the right people practices including recruitment, training, incentives and retention to maximize conversions

- Analytics across the sales funnel including, for example, web-analytics to clearly identify and plug drop-offs, propensity modelling to identify high potential customers, analytics to match call center agents with type of leads.

- The right structure and capabilities within the digital sales organization—from digital marketing to dedicated IT resources to analytics and call-center teams.

Insurers and web-aggregators can create a winning partnership by jointly creating and offering compelling propositions for customers. In our experience, the following factors have worked well in creating winning partnerships: product offerings including cross-sell propositions and attachment products, technology development to enable seamless acquisition, servicing and claims integrations, dedicated green channel for underwriting and claims processing for faster turnaround time, as well as win-win commercial models. In addition, further propositions like customized underwriting policies can make these relationships even more successful in the future.

Digital sales is poised to become a material channel. Rigorously executed models and a collaborative approach among partners can help the industry realize 5-7 times growth over the next 5-6 years.

5. Digital will enable targeting mass market at scale

Large scale growth in mass market or at the bottom of the pyramid was historically difficult due to geographic spread, extent of reach, and lower per policy value. In the future, digital will play a significant disintermediation role in this segment. With more than 50 crore people expected to be connected to internet through smart-phones[5], robust digital infrastructure in the country, and improvement in products and digital purchase journeys, the barriers to growth in this segment are set to diminish significantly.

Insurers can drive significant scale at reasonable economics through focused initiatives:

- Despite growth, full potential of bancassurance channel remains to be tapped. Especially public sector banks can play a major role with significant customer base and reach in this segment. A large number of customers have been enrolled into government sponsored social security schemes by Public Sector Banks. Insurers need to drive significant cross-sell and up-sell to such customers leveraging banks' branch and digital infrastructure.

- Apart from the banks' own channels, insurers can potentially tap 'Bank Mitras'—online interoperable BCs of banks to extend the reach. Bank Mitras offer more than 20 banking services at present and with AEPS enabled handheld devices, they can complete significant part of the sales process digitally.

- Similar to partnerships by some of the insurers with oil marketing companies, insurers can potentially tie-up or enhance insurance sales through other partners with broad market reach, such as utility companies, telecom companies, IRCTC and create innovative digitally offered solutions

- Scope of Bharat Billpay Services (BBPS) has been expanded recently to include payment of insurance premium. Insurers can leverage this especially for life and health insurance policies with recurring payments

6. End-to-end re-imagination of customer journeys for dramatically enhanced customer experience and lower costs

Digital is disrupting business models across industries. In insurance, it is challenging traditional insurers to re-imagine their business models. End-to-end reimagination of customers journeys can dramatically enhance customer experience while building leaner, lower cost models.

For customers, who are used to ordering a cab at the click of a button or getting complete tracking information when they order a package online, the experience insurers provide does not meet the bar. Based on the BCG-FICCI customer survey of over 3,000 insurance customers, a few themes emerge

- Servicing experience is the one consumers are least satisfied with. Younger age groups are least satisfied with the renewals experience while older age groups are least satisfied with the claims experience. Hence, there is a need for innovation across the value chain and across product lines

- In the policy purchase process, communication from company, support with policy selection and documentation are steps which cause least satisfaction

- Medical check-ups and pre-verification are also areas of dissatisfaction

- Digitally mature customers, who are used to instant fullfillment across non-insurance product categories, cite turnaround times as the area requiring most improvement

Insurers with pure play digital models in other countries (for example, China, USA) have created end-to-end journeys with a frictionless experience for the customer challenging traditional insurers. Consider, for example, the customer experience designed by Lemonade, a start-up that sells renters' and homeowners' insurance in New York. Using Lemonade's AI-powered app, which feels like exchanging messages with an agent, customers can get a quote for a personalized policy, sign up, and be insured in just 90 seconds. They can file their claims in the same manner, and have their claims processed and payment issued in as little as 3 minutes.

The opportunity at stake for insurers in India by reimagining their customer journeys is significant. Digital driven re-imagination of customer journeys (as shown in exhibit 13) across the value chain of issuance, renewals, servicing and claims, can dramatically cut turnaround times by 60-80 percent, reduce customer complaints by half, optimize costs by 30-40 percent, and build a business model ready for the future.

For example, the claims process, which is the moment of truth for customers, can be completely transformed for a traditional health insurer.

- Direct API based integration with hospitals to transfer patients' claims data
- Rule engine based decision making on the claim to reduce manual intervention and hence turn around times
- The above enabled by AI / ML can help improve fraud detection
- Real time tracking of the claim status
- Leverage data (for example, credit score, financial transactions, etc.) driven fraud analysis to create a 'green channel' to clear claims of certain customer segments instantly

The above re-imagination can lead to significant reduction in turnaround time, reduce customer complaints and achieve this at a significantly lower cost. All this is achievable without compromising on loss ratios. It can also enable insurers to create a differentiated propositon in the market—for example, by offering a service guarantee to customers on turnaround times.

For insurers who want to make significant and sustained progress along this digital journey, certain attributes are critical

- Re-imagine customer journeys and not just re-engineer: Take the customer perspective as the starting point, define the art of the possible (including learning from outside the industry), and ensure end-to-end digitization
- Agile@scale: Cross functional teams working with a minimum viable proposition based approach. In our experience, an agile approach shortens time to market by half, reduces development costs and drives higher employee engagement
- Leverage partnerships: Companies need to

EXHIBIT 13 | Customer Journey Reimagination: A Winning Proposition

	BEFORE REIMAGINATION	AFTER REIMAGINATION
Turnaround time for customer	1X	0.2 - 0.4X
Error rate	1X	0.2 - 0.3X
Customer complaints	1X	0.4 - 0.5X
Non-sales manpower cost	1X	0.6 - 0.7X

Significantly enhanced customer experience, reduced cost

Source: BCG project experience in India recognize that they cannot build everything in-house and need to leverage partnerships for data and technology to scale up faster

- Insurers need to continuously move towards a flexible, micro services based IT architecture. Creating the appropriate culture and value proposition to attract the right IT talent is also critical

- Change the terms of measurement: Build a dis-aggregated (for example, step-wise turnaround times) but end-to-end view, move beyond averages to 90th and 99th percentile

- Sustained commitment to the transformation program from senior leaders. This cannot be delegated

7. Leveraging Analytics across the Value Chain: "Necessity" not "Choice"

Rapid growth in data volume is opening up multiple opportunities for insurers to leverage analytics to drive sharper insights into their customers and operations unlocking growth, enhancing quality and profitability. Analytics has multiple use cases across the value chain with the scope to drive material impact (as shown in Exhibit 14).

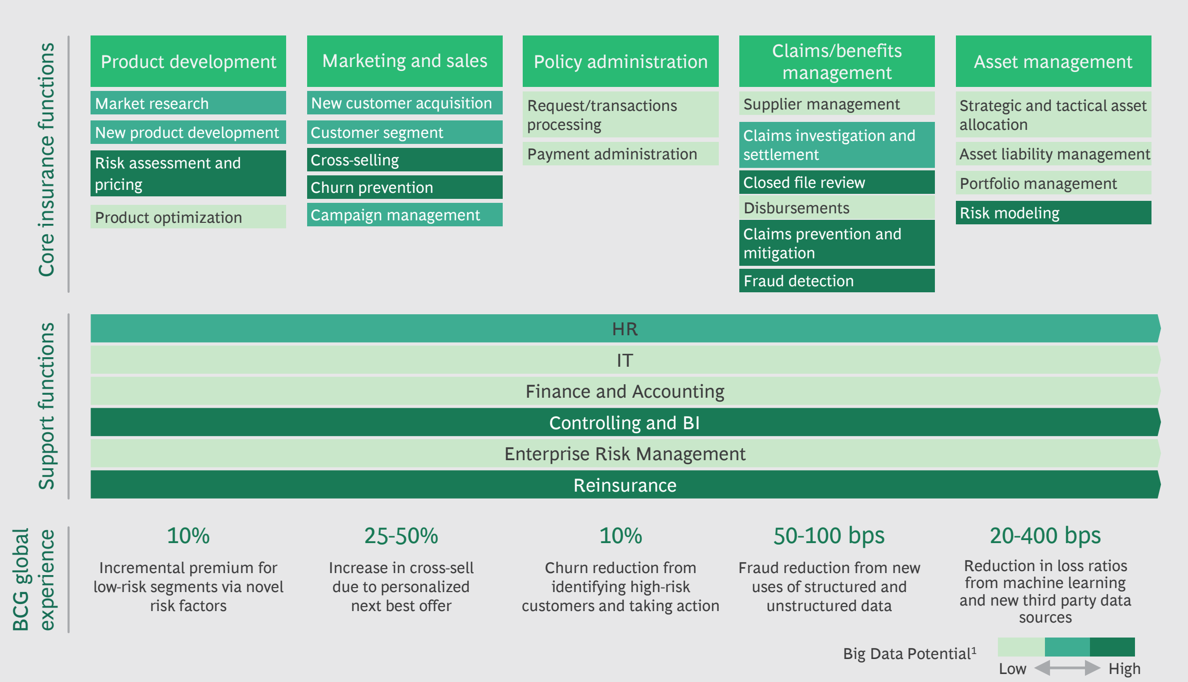
Insurers in India have started exploiting the opportunity offered by analytics but are still scratching the surface. While the insurance industry has advantage over a number of other industries with respect to potential availability of data, the industry has not been able to fully harness the data, (for example, access to credit bureau) effectively due to a number of reasons:

- Intermediaries provide highly selective profile data about customers. The problem is more acute in non-life insurance where KYC is not mandatory

- Limited transactions data owing to nature of customer interactions

- Legacy databases and systems plagued with low data accuracy, data organized on the basis of policies and not customers, limited integration with internal and external data sources

Exhibit 14 | Analytics Use Cases Across the Insurance Value Chain



Source: BCG global experience
1. Big Data Potential estimated based on the combination of impact and feasibility

- Limited industry-wide data sharing

Analytics driven programs can drive significant impact for Indian insurers (as shown in Exhibit 15).

Insurers will need a multi-pronged approach to effectively leverage the potential of big data and analytics:

- Drive data enrichment in terms of quality and volume of data by fully leveraging diverse internal data sources (for example, call centers, claims data) and external data sources such as credit bureaus, wellness partners
- Build organizational capabilities, for example creating a role of 'Chief Data Officer', training senior as well as mid-level management to create awareness of big data analytics concepts and use cases
- Invest in future-ready IT and database systems
- Develop analytics applications, models, integrate in business processes and create feedback mechanisms for continuous improvement
- Collaborate with channel partners, claims service providers for data access and use case deployment
- Rigorously work to drive execution with their sales teams, channel partners, operations teams—to build proof of concept and scale-up use cases across the business

Early movers in big data analytics will be able to create differentiation in customer offers and service. And over the next few years, leveraging analytics at scale will be a must to win.

8. Digital Partnerships and Ecosystems Will Be Built at Scale

Apart from direct digital distribution channels, partnerships with e-commerce players and digital ecosystems will present significant growth opportunity for insurers in the coming decade. The BCG-FICCI customer survey suggests that nearly 80 percent of digitally

Exhibit 15 | Examples of Impact of Big Data Analytics in the Indian Context

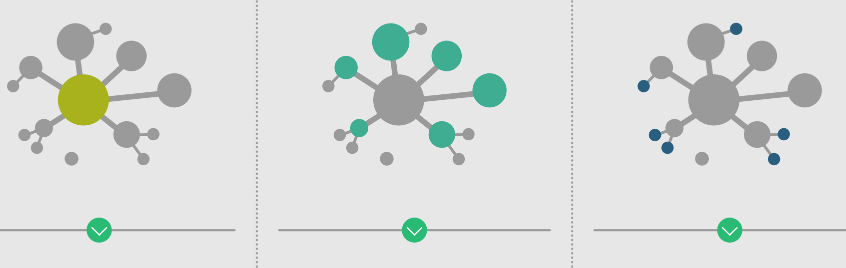
Source: BCG project experience with insurers in India mature customers are willing to consider purchasing insurance from non-traditional channels such as e-commerce websites. Making this real will require insurers and digital partners to build collaborative business models. This includes commercial arrangements which are win-win, joint solution design, and process innovation to deliver an intuitive and non-intrusive experience for customers. This needs to be supported by analytics and tech integration.

The next decade will also see the emergence of digital ecosystems, where a number of businesses come together on a common platform due to ease of sharing and engaging with customers, creating integrated offers, deploying a diverse set of capabilities and generating more data and context around customers. Such ecosystems can potentially become a one-stop-shop for a set of related consumer needs and intertwined customer journeys. Globally, successful ecosystems created by companies such as Ping An, Alibaba, Discovery are well-established. Discovery, for example, has successfully orchestrated a large shared-value health insurance ecosystem with multiple partners supported by analytics and tech to build a picture of clients' lifestyle choices and behaviours as they relate to health and disease. This has been successful in driving growth, lowering lapsation and achieving a better claims experience. India, with its strong digital infrastructure is ripe for emergence of ecosystems across customer need-groups such as health, housing, education, finance, and travel. Health, retirement and even auto focused ecosystems are potential areas of interest for insurers in India.

Insurers can participate in ecosystems with different approaches (as shown in Exhibit 16). Insurers can be ecosystem orchestrators, where they build and control the platform and serve the dominant need. They can become integrated partners where they leverage an orchestrator as the sales channel and offer their own products through the platform. Or they can be B2B enablers where they create propositions tailored to other businesses.

Digital partnerships and ecosystems, if built in a collaborative manner, are likely to gain significant scale. Given the large customer base

Exhibit 16 | Each Strategy Follows a Different Rationale



	ECOSYSTEM ORCHESTRATOR	INTEGRATED PARTNER	B2B ENABLER
RATIONALE	Secure control by serving the need space with integrated offering	Leverage orchestrator as additional sales channel	Readjust business towards B2B model enabling other players to sell or bundle insurance
REQUIREMENTS	Significant investments needed to create offering and build partnerships serving the entire need space	Differentiating insurance USP needed to justify partner role with own customer access	Plug 'n' play 'Insurance in a Box' solutions needed to enable ecosystem players to offer insurance on their own

Source: BCG Project Experience

in the country, many digital ecosystems have an opportunity to thrive in parallel. A number of digital partnership opportunities currently are either untapped or have insurance penetration in low single digit percentages. Key actions for insurers to capitalize on the opportunity will to be prioritize partners, introduce innovative products that integrate with partner offerings, setup operating model mirroring the operating model of the partners, and create data analytics engines to fully exploit the potential offered by such partnerships. The foundation of this will have to be strong collaboration between insurers and partners to build win-win models.

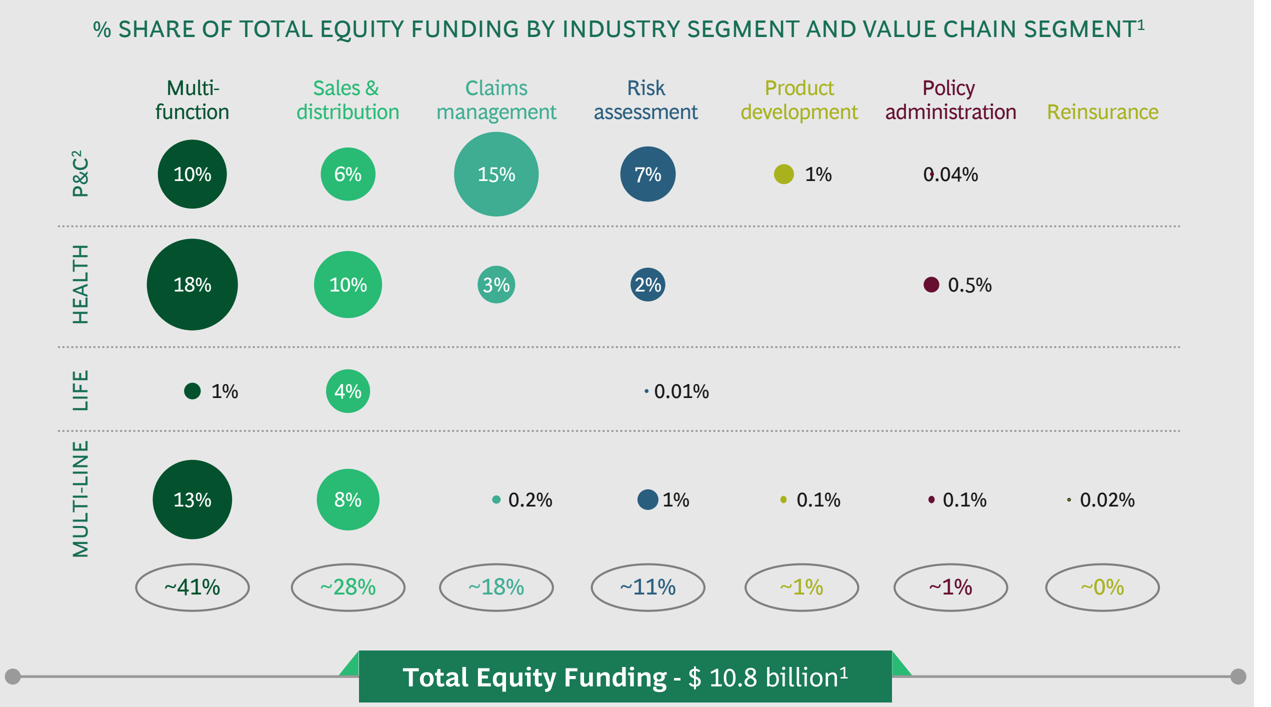
9. InsurTechs will rise rapidly—collaborators or competitors for insurers?

Globally, InsurTechs have emerged as one of the most dynamic tech-segments with over 870 active companies. More than $ 2 billion has been invested globally in InsurTechs in 2018. Investments have taken place across all core insurance segments and across the value chain (as shown in Exhibit 17). Insurer investments in tech start-ups have also exploded with over $ 1.5 billion being invested in the past 3 years.

In India, most of InsurTech investment has been made in web-aggregators and online focused new insurance companies. There is scope to expand areas of investment as more InsurTechs come to the fore.

The IRDAI has recently come out with guidelines for the 'regulatory sandbox' which should facilitate increased activity. The sandbox regulations offer relatively relaxed regulatory regime for InsurTechs to introduce innovative products and business models. The graduation and success of the first 'batch' will be a key development to watch out for. Even if some of the applicants do not achieve intended success, the process itself will provide immense learning for the industry and the regulator. Till date, innovation in the Indian insurance industry has largely been incremental. Lower barriers to introduce innovation through the regulatory sandbox and availability of capital for InsurTechs will create opportunities to drive break-through innovation in the insurance industry.

EXHIBIT 17 | Equity Investment in InsurTech Across Industry Segments and Value Chain



Source: BCG FinTech Control Tower
1. Period: 2000—2018 Q3
2. P&C—Property and Casualty Insurance

Globally, insurers are engaging with InsurTechs in variety of ways (as shown in Exhibit 18). They have setup internal innovation centers or incubation cells, they are collaborating with InsurTechs with established offerings for specific applications or investing in such start-ups at various stages of development. The foremost priority for insurers in India is to articulate a clear strategy and roadmap to drive innovation.

10. Digital transformation will drive shareholder value creation

The coming decade will see a number of insurance companies getting listed in India. Based on BCG's annual Insurance Value Creators research, top value creators demonstrate a set of practices:

- For those with low ROEs, a rigorous focus on transforming operations (through enhancements in productivity, cost optimization), a hard look at their portfolio, prudent capital management are important levers.

- For better performers, bold moves to articulate a compelling growth strategy and to invest in future growth options are key. Cost optimization and capital management, while necessary to demonstrate progress, will be insufficient if not backed by a clear growth strategy and digital driven transformation. This maximizes value from the core business while in parallel building future growth options. PingAn in China and Discovery in South Africa, among the leading insurance value creators, are good examples of insurers that have invested in building disruptive business models at scale (as shown in Exhibit 19). PingAn has created value using technology in 3 different ways: significantly improving the productivity of its core business, developing new opportunities in its core business, and investment in FinTech ecosystems and solutions. Discovery, pioneer in the shared value health insurance model, encourages healthy living through promoting healthy behavior. Vitality, created by Discovery, is the world's largest wellness solutions platform. Partnerships and ecosystems created around big data and analytics are critical to Discovery's business model.

Exhibit 18 | InsurTechs: Four Archetypes Adopted by Insurers to Participate/Collaborate

	INTERNAL—"INVENT"		EXTERNAL—"INVEST"	
Typical Entity	Innovation Labs/ R&D Labs	Venture Builder	(Seed) Accelerator Programs/Incubators	Acquire stakes/Corporate Venture Capital Fund
Description	• Build disruption in-house - specialize in research type technology innovation (horizontal) with longer term investment horizons	• Specialize in inventing and building NewCo ventures using corporate assets • Partner with InsurTechs to bring together complementary capabilities—incumbent scale and InsurTech disruption	• Connect with startups, techs, universities—can include open APIs, hackathons, competitions • Typically fixed term, cohort based programs • Includes space, mentorship over 3—4 months	• Makes investments (seed through late stage) directly in external start-ups • Useful for disruptor-type InsurTechs that require separate organization • Typically take minority equity stakes, e.g., 10—30%
Insurance Companies	Allianz—Digital Factory AXA - Advanced Engineering Lab Munich RE—Digital Partnerships	Allianz X Axa—Kamet Ventures Aviva—via Founders Factory	Axa - Seed factory Allianz - Accelerateur Munich Re - MundiLab Startupbootcamp	Allianz X - Digital Corporate Ventures Axa Strategic Ventures Ping An Ventures American Family Ventures
	Liberty Mutual—Solaris Labs			

Source: BCG FinTech Control Tower

EXHIBIT 19 | Examples of Digital Strategy Driving Total Shareholder Return

	PING AN (CHINA)	DISCOVERY (SOUTH AFRICA)
Company TSR[1]/ Industry[2] Median TSR	2.4X	1.9X
Key elements of digital strategy	• Digital ecosystem platform • Driving agency productivity using digital platform • ML integrated in automated claims assessment • AI based customer interactions • Incubator for internal FinTech startups	• Big data analytics to build a picture of clients' lifestyle choices, health risks • Incentive based wellness program leveraging IoT, online wellness platform • Digitally driven customer engagement

Source: BCG 2019 Value Creator Rankings, BCG Analysis
1. Five-year TSR, 2014-2018
2. BCG 2019 Value Creator Rankings include 91 global insurance companies with total market capitalization of $ 1,889 billion

- Alignment of their leadership, culture and organization with the businesses they want to create. This includes an 'agile' operating model to shorten time-to-market, at lower costs and, with a more engaged employee base.

Conclusion

Currently, the Indian insurance industry is only scratching the surface as far as the potential of digital and data driven transformation is concerned. In the next decade, insurers that successfully maximize this potential will capture a disproportionate share of value.

NOTES
1. Source: RBI, BCG Analysis
2. Source: IRDAI, BCG analysis
3. BCG Morgan Stanley Report, "Reinventing Life Insurance Agency Distribution Globally"
4. BCG-FICCI survey, n = 3,300, representative sample across 12 10-lakh+ population cities and across age groups, gender and digital maturity
5. The Year in Search Report by Google

ENABLERS FOR THE '20S—BUILDING INSURANCE POLICY AGAINST THE RISK OF DISRUPTION

THE INDIAN INSURANCE INDUSTRY will see disruptive change over the coming years. Ironically, there is none and there will be no insurance policy to cover the risk of disruption. Insurers need to transform to build their own insurance policy. The previous chapter discussed the imperatives for insurers in the context of key trends. This chapter focuses on enablers that will help insurers prepare for and capitalize on disruption to build an industry that is stronger and better.

Agenda for Insurers

1. Build a customer centric mindset: Focus on solutions, personalization and digitally enabled engagement

Customers want financial solutions, including insurance, interwoven into their daily lives. Their expectations are being influenced by their experiences outside insurance, which are personalized, efficient and engaging. Insurers need to get closer to the end customer in understanding their needs and expectations and use that to design solutions (beyond just 'products'), personalize the experience, and deepen their engagement with them. This requires a shift in mindset at insurers to make customer centricity a real strategic priority supported by change in processes. Lack of understanding of customer context has been a key inhibitor for insurers to personalize offers and to engage meaningfully with customers. Insurers can better harness own data, supplement this with targeted customer interactions (to test solutions, incorporate feedback from various touchpoints), leverage partner data and third party sources and, soon-to-be-launched user consent based data exchange infrastructure to develop richer understanding of the customer profile and context. With these insights, insurers need to develop new solutions, personalize products, recommend cross-sell offers, create different 'swim-lanes' for digitally enabled purchase journeys, and drive engagement digitally.

2. Build bionic distribution—Digital and data as a "force multiplier" to enhance face-to-face interactions

Traditional channels such as individual agency, bancassurance will remain dominant even as digital distribution grows rapidly. For insurers, a 'bionic' model complementing human engagement with the power of digital and analytics will be critical to enhancing productivity. This will require: reimagining the distributor journey to ensure the tech design and analytics use cases meet core channel requirements, integrating digital and analytics into the value chain ranging from recruitment to sales management to customer interactions, an integrated go-to-market approach focused on high priority tech solutions rather than a plethora of apps and solutions, and rigorous focus on driving adoption throughgamification, incentives and reviews. As the experience in

China shows, digitally enabled physical sales channels can experience material improvement in productivity by adoption of digital and data at scale.

3. Accelerate process automation and digitization—"Instant, paperless, first-time right"

Key friction points in digital journeys of customers and intermediaries often relate to manual, physical process elements. Movement and processing of papers leads to high turnaround times impacting customer experience, employee productivity and engagement. With digital infrastructure, big data analytics and new-age technologies such as robotics, end-to-end digitization and automation of the processes is possible across front-office functions (for example, distribution), middle-office functions (for example, underwriting), and back-office functions (for example, operations, HR). Insurers need to commit to process digitization at scale cutting across external and internal processes.

4. Setup next generation tech function—"Moving from an insurance company to a tech company"

So far, technology has always been an enabler for business at most insurers. However, increasingly insurers will have to make critical technology choices that have a lasting impact on how they conduct business and how they are set-up in the long-run. Setting up the 'Next Generation Tech Function' is critical for insurers to unlock real value from their business. This will require actions on 4 dimensions. Firstly, technology and business need complete alignment. Robust 'biz-tech' alignment can be achieved by adopting agile ways of working and increasing collaboration between the two functions. Secondly, core technology processes need to be revamped to ensure efficiency as well as effectiveness. It is critical to build robust capabilities for key functions like vendor management, change delivery and project management. Thirdly, insurers need to think hard about technology organization and people. They need to identify the key skill-sets and capabilities that will be needed in the long-run and make a strategic choice on whether to outsource these capabilities or keep them in in-house. Further, the technology organization needs to be designed so that new strategic projects continue in balance with business-as-usual projects. Re-skilling of the technology team is also crucial to keep pace with rapidly changing customer needs. Finally, insurers will need to make future-ready choices regarding design of the technology architecture, which is perhaps the single biggest determinant of success in building the 'Next-Gen-Technology-Function'.

5. Rewire business using analytics at scale—"Analytics as the core engine, not an afterthought"

Analytics should not be hype for insurers. It is reshaping the industry value chain and holds real potential. Insurers that have successfully used analytics to enhance their decision making have seen over 300-500 bps improvement in combined ratios. Insurers need to rewire their business models using analytics. To achieve this, insurers must focus on the following: ensure that top management sponsors core analytics projects and gives them constant attention, involve all stakeholders at every stage (analytics team partners with business owners and IT to create an agile cross-functional team), build critical capabilities in a core data-science function that works with business, and develop an obsession with scaling up initiatives. To support analytics programs, insurers also need to build data architecture (for example, data lakes) that can gather, store, combine and study all manner of data.

6. Adopt new ways of working—"Truly agile"

Along with digitization comes the need for increased speed and flexibility. Old ways of working and accompanying structures will be unable to keep up with the speed or scale of change that is starting to take place. 'Agile' ways of working can transform the organization and get Indian insurers ready to compete in a digital world. Companies in multiple industries (including insurance) that have institutionalized agile way of working have accelerated new product delivery by 200 percent to 400 percent, reduced development costs by 15 to 20 percent, improved customer satisfaction, multiplied their return on digital investment by 200 to 300 percent and, achieved higher than 90 percent employee engagement. Agile is a journey that takes time to embed within the organization at scale. It is time for insurers to get started, in the right manner. The key is to embed agile principles of collaboration, autonomy, speed, and results into the DNA of the organization.

7. Cascade digital mindset and innovation focus through the organization

Given the dynamic nature of digital trends, the approach needs to change to 'adaptive strategy' where the strategy or blueprint is a living document. Often, innovation cells or strategy verticals do not fully leverage the talent, ideas and insights available in the broader organization. Insurers need to make innovation and digital transformation a meaningful part of broader organization and across the hierarchy through well-defined KRAs, KPIs, and incentives. In parallel, insurers need to create a leadership development agenda which ensures sufficient focus on digital and how leaders need to evolve in the way they function to drive the transformation.

8. Reposition insurance—"Protecting the future"

Insurance products plays a key role in fulfilling protection and investment needs. A key driver for creating 'pull' based demand for insurance will be creating significant awareness and repositioning the insurance industry as the pre-eminent sector of the economy. This will require a collaborative effort across insurance companies, the regulator, and the Government. The campaign needs to be omnichannel and needs to have tailored messages for different customer segments.

Agenda for the Regulator and the Government

1. Drive EASE reforms in PSGICs

Government owned insurers contribute to 40 to 50 percent of business across life and non-life insurance segments. Driving reforms in public sector insurance companies will not only change the performance trajectory of these companies but also create a large impact for the overall sector. Through 'Insurance Manthan', 35-point EASE reforms agenda has been formulated for PSGICs. While a few action points are being implemented, a structured drive for implementation is key.

2. Deepen the penetration of social security schemes

Since introduction, PMSBY, PMJJBY, APY, PMFBY have made sizeable enrollments. Government's help in managing the loss ratios, expediting the process for premium payments will lead to greater interest from public as well as private sector insurers. Public Sector Banks (PSBs) have played a major role in the enrollments. Encouraging PSBs to use their digital channels and 'Bank Mitra' network will help in expanding the coverage digitally.

3. Help industry address product need gaps

India continues to witness large natural catastrophes impacting households and small businesses severely. Social security schemes are yet to cover such risks especially for the vulnerable mass market segments. Additionally, enabling integrated cross-segment solutions across life insurance, non-life, and health insurance will help industry to offer more customer centric solutions.

4. Devise policies to attract further capital

The move to relax FDI restrictions in insurance and intermediary businesses has received broad-based positive response. Given slower growth in private investments in the economy and pressure on availability of capital among promoters (especially banks), it would be imperative to actively consider further relaxation of FDI norms beyond 49 percent.

5. Encourage innovation at scale

Introduction of the regulatory sandbox framework is a significant step towards promoting innovation in the insurance industry. Learning from the initiative can be used to adapt the rule book for insurance companies to enable broad-based innovation even outside the sandbox environment. Insurance companies are restricted to setup subsidiaries and take significant equity stake in other companies. As insurers look to drive innovative business models and partnerships with

InsurTechs, relaxation of related investment norms will play key role in promoting innovation.

6. Implement robust risk-based capital regime in timely manner

Transition to International Financial Reporting Standards and Risk Based Capital regime will be a paradigm shift in financial and capital management for insurers. Adoption of global standards, timely implementation, clarity on guidelines, and differentiated approach suited to the nature of business and ownership pattern will be key to strengthen balance sheets and it will help insurers invest in new capabilities.

7. Facilitate dynamic underwriting

To fully leverage insights from high frequency data sources, such as wearables or telematics, insurers will need the flexibility to carry out dynamic underwriting and introduce innovative product constructs, premium payment terms that dynamic underwriting will facilitate.

8. Create and encourage adoption of digital infrastructure and industry-wide data platforms

Policy and regulatory push for greater adoption of digital infrastructure (for example, CKYC, digital policy formats) will increase customer convenience, improve efficiency and facilitate move to a digital future. Encouraging sharing of data across industry especially related to insured risks and frauds will significantly help insurers to improve pricing and overall economics of the business.

Conclusion

Winning the '20s will require the insurance industry to rethink 'what' it offers to its customers and also 'how' these offers are made. To make the change happen, insurers will need to invest heavily not only in themselves but also in distribution partners and collaborators, on which their success depends. The regulator and the government will need to play their part by creating a conducive growth environment and adapting the rule book to reflect the rapidly changing reality.

FOR FURTHER READING

Boston Consulting Group publishes reports and articles on related topics that may be of interest to senior executives. Recent examples include:

Winning the '20s – A leadership agenda for the next decade
An article by Boston Consulting Group, December 2018

Start, Enable, and Scale Digital Transformation in Insurance
An article by Boston Consulting Group, October 2018

Reinventing Life Insurance Agency Distribution Globally
A report by Boston Consulting Group and Morgan Stanley, March 2019

Reimagining the Insurance Customer Journey: An Emerging Markets Perspective
A working paper by Boston Consulting Group, May 2019

What Does a Successful Digital Ecosystem Look Like?
An article by Boston Consulting Group, June 2019

Why Chinese Insurers Lead the Way in Digital Innovation
An article by Boston Consulting Group, February 2018

Building New Data Engines for Insurers
An article by Boston Consulting Group, November 2018

Rewiring Decision Making in Insurance with Data Science
An article by Boston Consulting Group, October 2018

When Will Insurers Go Agile
An article by Boston Consulting Group, October 2019

A New Boldness Pays Off – The 2018 Insurance Value Creators Report
A report by Boston Consulting Group, September 2018

NOTE TO THE READER

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