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# INDIA LIFE INSURANCE

NEGOTIATING THE TROUBLESOME TEENS

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# INDIA LIFE INSURANCE

NEGOTIATING THE TROUBLESOME TEENS

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# FOREWORD



THE INDIAN LIFE INSURANCE industry is at the crossroads today. Having enjoyed a period of significant growth from FY 2001 till FY 2008, the slow down post that has come as a wake up call, and has forced the industry to introspect its actions and priorities.

Nevertheless, the fundamental proposition of, and the national need for, the life insurance industry in India remains strong. While the times are challenging, the right set of coordinated actions by the companies, the regulator and the government over the coming years can result in these prospects translating into real consistent growth and improved health for the industry. The industry will require to make bold decisions and disruptive changes to break out of the tough situation it currently finds itself in.

This report, “India Life Insurance: Negotiating the Troublesome Teens”, is being published amidst widespread negative sentiment surrounding the Indian economy, and valid concerns regarding the health of Indian life insurance industry. The concerns range from the sector’s lack of customer focus (both in product and services) to unsustainable business models and the inability to attract the right talent. This report outlines an action agenda for the industry to come out stronger from the present phase. We hope it will spur the life insurance sector into appropriate action.

**Mr. Amitabh Chaudhry**  
Chairman, FICCI's Insurance and Pensions Committee &  
CEO, HDFC Life Insurance Company Limited

# EXECUTIVE SUMMARY

THE LIFE INSURANCE INDUSTRY in India was opened up in FY 2001 when the first batch of licensed private sector players started operations. As we speak, the industry is just entering into its teens. As many parents will vouch, this is the most challenging phase in the upbringing of the child. The same is the case with the private-sector life insurance industry, which is truly passing through challenging times today.

## The Life Insurance Sector's Journey has been a Roller Coaster Ride Over the First Dozen Years

The five year period between the financial years 2003 and 2008 was characterized by tremendous growth with a sharp year-on-year increase in most metrics. The Annualized New Business Premium (ANBP) grew more than five times over this period. Policies in force nearly doubled and life insurance penetration as a percentage of Gross Domestic Product (GDP) increased from 2.4 percent in 2003 to 4.2 percent of GDP in 2008. The market sentiment was that the industry was heading towards becoming one of the long term flag bearers of liberalization. Life insurance was clearly perceived as one of the sunshine sectors and attracted talent from across sectors as diverse as insurance, banking, consumer goods and retail.

In sharp contrast, the next five years saw a dip that very few people could have predicted. ANBP remained flat for the entire second five year period from FY 2008 to FY 2013. As a result, the insurance penetration as percentage of GDP dipped from 4.2 percent in 2008 to 3.2 percent in 2013. While policies in force grew, the growth was less than half of the preceding five year period. This coupled with a sharp dip in credibility of the industry in the minds of customers, and the public at large. An outcome of all of the above is that the life insurance industry is no longer as attractive to talent across levels as it was earlier.

This drastic difference in the industry's performance over the two five-year periods can be explained by three key factors—derailing

of India's economic growth, top line focused industry model and the drastic regulatory changes. The global economic downturn triggered a similar slow down in India. The average growth of India's GDP dropped 2 percent, from 8.7 percent per annum in the period FY 2003–FY 2007 to 6.7 percent in the period FY 2008–FY 2013. This has been compounded by a drop in the share of financial savings to a low of 36 percent in 2012 (from a high of 52 percent in 2008).

The second factor has been the top line focused industry model with a land grab mindset, with multiple challenges such as a fixed cost agency model, high cost infrastructure model, an undifferentiated bancassurance model and mistaking the intermediary as the key customer. All of this led to an unsustainable model which fell apart post the initial honeymoon period of 6 to 7 years when the promoters / shareholders asked for returns / profits in exchange for capital.

The third major factor has been regulatory activism. While one can argue that the regulator was forced into ringing in the changes given the industry's challenged operating model, the regulatory changes relating to channels and products have clearly impacted the sector's growth adversely. While the product-related regulatory changes have created severe disruption in the insurers' business, the existing commission structure for channels is one of the lowest in the world, making it less attractive for intermediaries to sell life insurance. This is the challenging situation faced by the private sector life insurance industry today.

## Potential Exists for Sustainable Growth Going Forward—Bold Decisions Needed

In the context of the current market conditions, questions on the fundamental potential of the industry are but natural. While the challenges are multiple, we believe that the life insurance market still has significant potential to grow and more importantly, play a critical role in India's development. Based on the long term trends and fundamentals underlying household savings (which continues to be around 25 percent of GDP), we believe life insurance has the potential to grow to 2–2.5 times its current size by 2020, even with a conservative share for financial savings of 35 to 40 percent of household savings and consistent share of life insurance (nearly 20 percent of financial savings).

At this stage, the life insurance industry in India is going through the troublesome and volatile teen years, and the challenge is to see how the industry can quickly move into a more stable adulthood. The industry is at the crossroads. There is a pressing need to take some difficult decisions because a business as usual approach with incremental changes is not going to be good enough. The industry requires disruptive changes to break out of the tough situation it currently finds itself in. The larger insurers will need to act on a broad and bold agenda across multiple fronts. At the same time, the smaller insurers will have to take equally bold calls to identify the niche areas to focus on (and hence, by design, what to defocus) because they will not have the resources to go abroad.

## Industry Needs to Focus on Five Key Agenda Items

Based on the current status of the industry, the current challenges and the likely possibilities for the path forward, this report identifies a five point agenda for the industry.

1. Rediscover growth in distribution—more than double over the next few years

Breaking out of the status quo on agency—The current agency model followed by the private sector life insurance industry as a whole is severely challenged. Agency distribution has been suffering from a profitability crisis for a while now and as a result has halved in absolute premium terms over the past five years. At this stage, it is essential that the agency model moves beyond incremental changes mode. The industry needs to consider a multi pronged disruptive agenda, challenging many conventional sacred cows. This would include, for example, looking at doubling the spans of control in agency management; completely redefining the role of the agency manager to become a true manager; variabilisation of the fixed cost structure, enhancing productivity by leveraging technology and segmentation of the agency and agency manager force with customized role expectations and hence adapted evaluation metrics.

Realizing the full potential of bancassurance—The bancassurance journey in India has been a story of the glass half full and half empty. While bancassurance business has grown over the past few years, it is not firing on all cylinders. In fact, bancassurance growth has flattened over the past two years. The challenge has been that over 70 percent of the banking system, the PSU banks, have been underperforming with a premium / savings deposits ratio significantly lower than the private and foreign banks. The industry would benefit from implementing a best-in-class partnership model with banks covering efficient sales management, seamless service support and integration, “we are in this together mindset” with aligned priorities and targeted customer analytics. In addition, the industry needs to develop bespoke solutions for the under tapped PSU banks as well as ensure a long term orientation towards the business.

Scaling up of the third leg—Beyond these two key channels of agency and bancassurance, there exists a third leg for distribution consisting of salaried sales force, corporate agents, brokers and digital. Today, all of these channels combined account for less than 15 percent of the premium for private sector life insurers. Including LIC, this number would be low single digits. The key imperative is to scale up these channels.

2. Recreate the value proposition for customers

The Indian life insurance industry has made the intermediary the customer and in the process, the actual end customer has been relegated to the background. This is evident from the low persistency (indicative of lower value perception by end customer) and a large percentage of customers expressing clear dissatisfaction over the policies sold to them. The time has come for the industry to become

more customer centric, to bring the end customer up front again and to develop compelling value propositions for the end customer. The customer centricity effort will entail three key elements—clearly defining who the customer is, then defining a compelling product offering and finally defining a service delivery model with activities across the value chain, including personalized product and service offers, need based selling, seamless customer experience across channels, strong exception handling (moments of truth); simple and efficient processes with low TAT and high convenience.

### 3. Embrace digital wholeheartedly

Digital is a mega trend that is disrupting business models globally. India has already begun its digital evolution journey, and a recent BCG study estimates that its digital economy will grow 5 to 6 times in the next three years. In life insurance as well it is clear that digital has the power to be disruptive across the value chain, be it product development, sales and marketing, operations or claims. The time has come for the industry to move away from treating digital as alternate or an add on, and to embrace digital wholeheartedly as a core part of the overall model. Such an approach would entail leveraging digital across four key elements—as a differentiated sales channel, as a platform for multi access service, as a multi faceted marketing vehicle and as a core efficiency and productivity enhancer in the operating model.

### 4. Rethink cost structure from scratch—halve cost ratios

Among the various challenges facing the life insurance industry, the area that has received probably the highest attention from the sector over the past five years has been the large operating cost base. Life insurers have taken steady measures to reduce their cost base, and they have come a long way over the past decade. The opex to total premium ratio has improved from approximately 40 percent in 2004 to 18 percent in 2013. However, the journey is far from over. Benchmarks suggest that efficient life insurers' opex to total premium ratios would be in the range of 7 to 8 percent, with best-in-class ratios as low as 5 to 6 percent. The imperative for the industry from here on is to halve the current opex ratio of 18 percent. This will require quantum shifts on three key fronts—doubling sales force productivity; defining a target operating model—which includes leveraging centralization, automation, straight through processing (STP), digitalization, and lastly adoption of coopetition for leveraging scale across the industry . For example, insurers could collaborate for sharing information on mis-selling agents and fraud customers as well as creating common service entities for certain activities such as training and skilling of agents, and processing factories.

### 5. Create a winning organization

The life insurance industry is faced with multiple challenges on the people dimension. Once a sunshine industry attracting talent from across sectors, today, life insurance is struggling to retain its shine based on slow, if any, growth and is a brand with a negative

connotation. Attrition rates amongst agency managers are as high as 6 to 7 percent per month. Given this situation, the life insurance industry needs to address the people issue at both ends of the pyramid. At the lower end of the sales pyramid, the challenge is to create an efficient and sustainable sales army, while at the executive management level, the challenge is about leadership development to create a strong and adaptive leadership team. The industry needs to focus on building a future ready organization, armed with all the skills and capabilities required in the new digital world, at the same time creating a winning culture and mindset.

## Large Ministry / Regulatory Agenda as Well

While the industry has its hands full with an intense agenda as outlined above, it is also critical to take note of the government / regulatory agenda. Considering the gravity of the situation, it is important for the insurers as well as the regulator / ministry to join hands and work together to ensure a sustainable and healthy life insurance industry which is crucial for India's development. The industry alone cannot pull off what is required.

The most important requirement for the regulator is to define its role and hence its agenda. Over time, as the sector stabilizes, the regulator needs to move away from the current activist role to a facilitative role. The regulator needs to define a 3 to 5 year regulatory roadmap for the sector so that the insurers are aware of the impending regulatory environment and are able to prepare and plan for the same and manage the costs of regulatory compliance. The government / regulatory agenda for the next 2 to 3 years should be as follows:

### **STRUCTURE: FUNDING AND SIMPLIFYING THE INDUSTRY STRUCTURE**

- Relax ownership norms and increase FDI limits (from 26 percent to 49 percent)—this will ease funding pressures and bring in the much needed FDI
- Define IPO norms—this will enable fund raising, reduce the load on promoters while serving to instill market discipline
- M&A norms—this will enable deals and also serve to simplify the industry structure

### **ENABLING INDUSTRY TO BE RESPONSIVE TO CUSTOMER NEEDS**

- Ensure faster product approval process—establish a broad framework for product design: which facilitates innovation while encouraging adherence to protection of customer interest
- Create conducive environment for under tapped spaces—for example, pension, long term money, etc. through taxation / other benefits

### **DISTRIBUTION: RECREATE ATTRACTIVENESS OF SELLING LIFE INSURANCE**

- Make commission structures attractive for intermediaries—today, the commission structures in India are one of the lowest in the world

- Develop appropriate “banca model”—to ensure the bank system is utilized most appropriately
- Facilitate incubation and development of emerging channels—direct, affinity channels

#### **OPERATIONS—LEVERAGE SCALE**

- Permit outsourcing, where useful and relevant
- Encourage industry cooperation to leverage industry wide scale—for example: dematerialization of policies

#### **ASSET MANAGEMENT**

- Explore relaxing investment norms to permit investments by insurers in broader asset categories—for example, more equity, real estate, derivatives, gold, etc.

**I**N summary, these are challenging times. It is going to take a lot of coordinated effort by the industry—both, the insurers as well as the regulator / government, to transition from the troublesome teens into a more stable and mature adulthood phase. The onus is on the industry to take the requisite bold decisions to enable the same. It is difficult, but it is our belief that this can be achieved. However, there is no time to waste.

The time to act is now. The industry needs to take inspiration from the French proverb, “Change is a door, which can only be opened from within”.

# NEGOTIATING THE TROUBLESOME TEENS

THE LIFE INSURANCE INDUSTRY in India was opened up in FY 2001 when the first batch of private-sector players started operations. As we speak, the industry is just entering into its teens. As many parents will vouch, this is the most challenging phase in the upbringing of a child. The same is the case with the private-sector life insurance industry, which is truly passing through challenging times today.

## The Early Years to the Teens—A Tale of Two Distinct Journeys

As one looks back, the journey so far has been interesting, rather like a roller coaster ride. The first 12 to 13 years of private-sector insurers' operations in India have been a tale of two completely different phases—ones so stark in their difference that it becomes difficult to believe it is one and the same market. Exhibit 1.1 highlights some key metrics over two five-year periods—FY 2003 to FY 2008 and FY 2008 to FY 2013. No matter which dimension one looks at, the difference is vivid. Annualized New Business Premium (ANBP) for the sector, as a whole, grew almost five times during the first phase, but has been virtually flat since then. As a result, the penetration of life insurance, having increased from 2.4 percent of gross domestic product in FY 2003 to 4.2 percent in FY 2008, fell back to 3.2 percent in FY 2013. Similarly, a clear slowdown is evident

during the second period with regard to the rate of growth in the number of policies in force, which had nearly doubled during the first five-year period.

## The Challenge Today

This drastic difference in the performance of the life insurance industry, over such a short time period, begs the obvious question—What has derailed the life insurance bandwagon? In our assessment, the following three key factors have impacted the life insurance industry over the past five years:

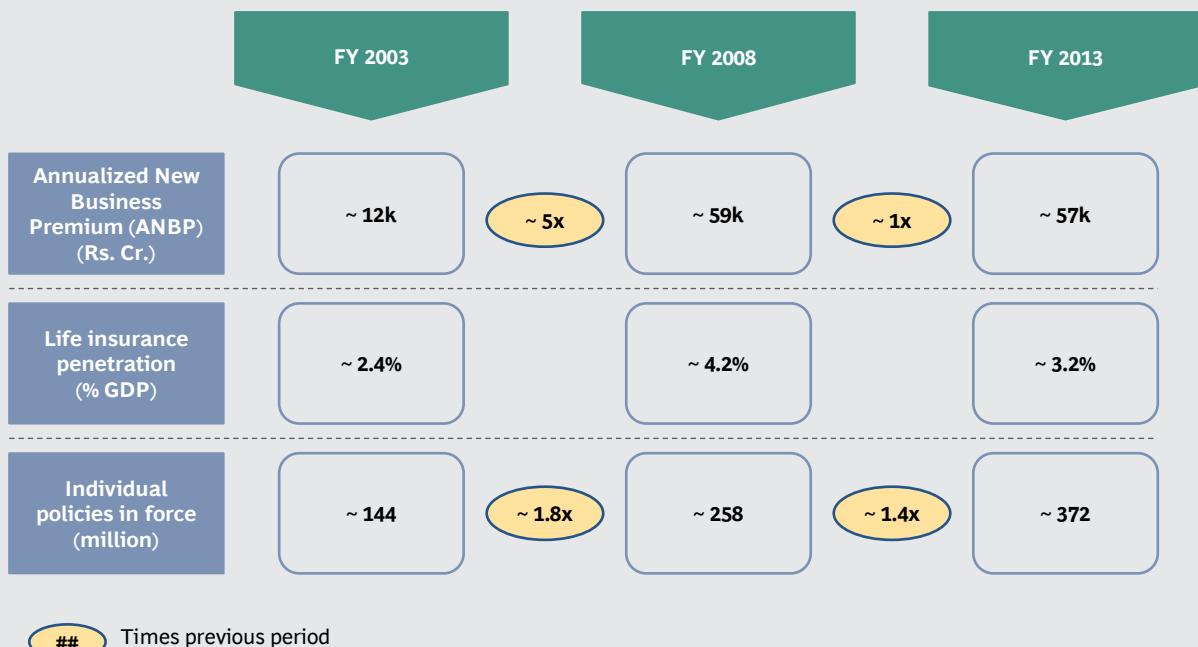
1. Derailing of India's economic growth,
2. Topline focussed industry model
3. Drastic regulatory changes

### DERAILING OF INDIA'S ECONOMIC GROWTH

The global economic downturn of 2008 triggered a similar slowdown in India. The average growth rate of India's GDP dropped by 2 percent, from 8.7 percent during 2004–08 to 6.7 percent over the five years ended FY 2013 (as shown in Exhibit 1.2).

The economic slowdown's consequent adverse impact on investor morale, in combination with stagnant domestic stock markets, has had a significant effect on the share of financial savings in household savings. In

## EXHIBIT 1.1 | Life Insurance Journey So Far

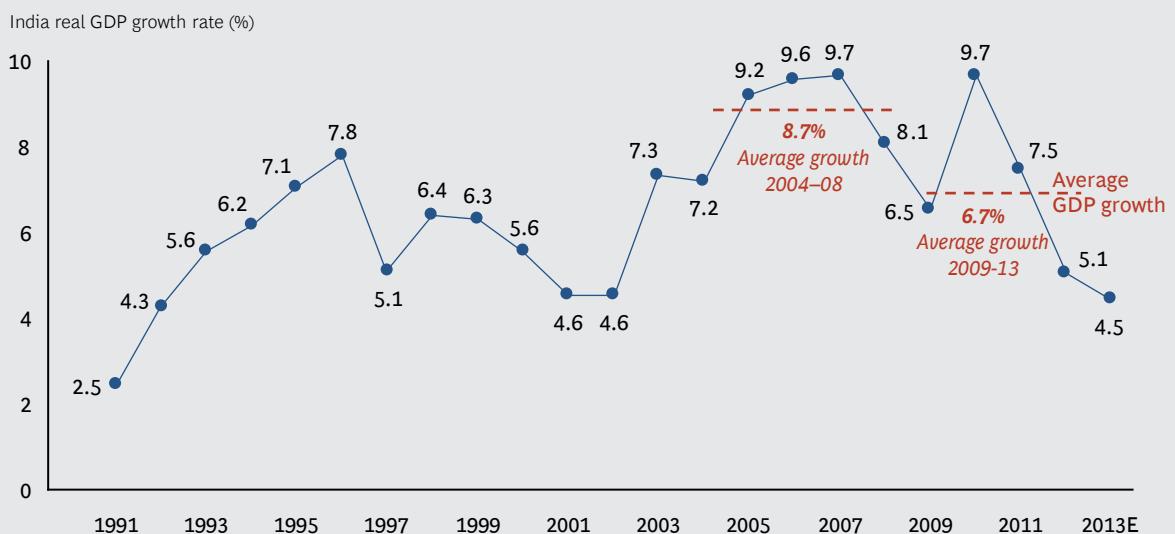


Sources: IRDA; Public disclosures; Swiss Re Sigma; BCG analysis

Note: ANBP calculated as First Year Premium + 10% of Single Premium. Policies in force for FY 03 and FY 13 estimated using expected ratio of new policies and policies in force

## EXHIBIT 1.2 | GDP Growth has Seen Sharp Drop Over Last 5 Years

India real GDP growth rate % (1991–2013)



Sources: RBI; EIU; MOSPI; Oxford Economics; BCG analysis

fact, the share of financial savings has fallen rapidly over the past few years, from a high of 52 percent in 2008 to as low as 36 percent in 2012, which is the lowest since 1971 (as shown in Exhibit 1.3).

Physical assets such as gold and real estate have gained share at the expense of financial asset classes like bank fixed deposits, stocks, insurance policies, etc.

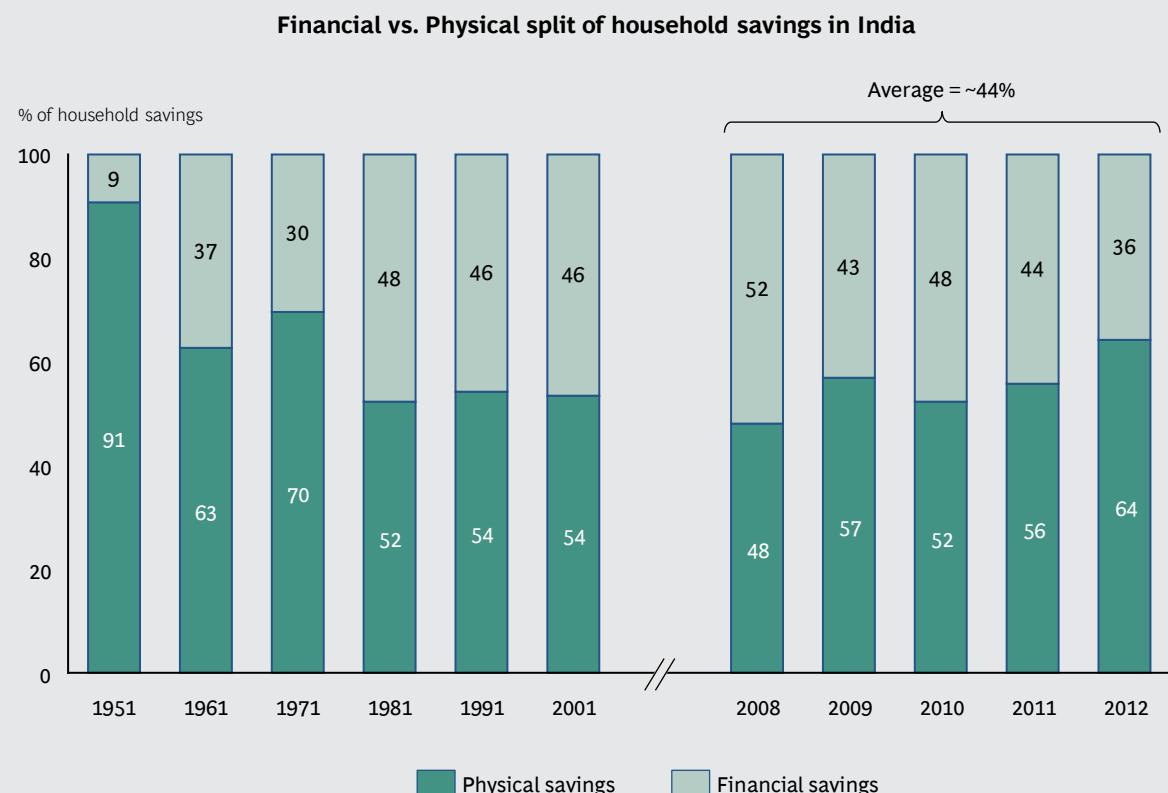
In addition to financial instruments accounting for a lower share of household savings, there has been a clear shift in the perception among individuals as far as the relative attractiveness of life insurance products vis-à-vis alternative savings options are concerned.

Total sales of Unit-Linked Insurance Plans (ULIPs) have fallen, from almost Rs. 70,000 crore in FY 2008 to nearly Rs. 10,000 crore in FY 2013 (estimated as per first 3 quarter

data)<sup>1</sup>, driven by the Indian stock market's lackluster returns over the given period. With the key equity indices remaining more or less stagnant, equity mutual funds have suffered as well. Total Assets Under Management (AUM) with equity MFs have declined by nearly 27 percent from their peak, of almost Rs. 192,000 crore<sup>2</sup> in 2008, to about Rs. 141,000 crore<sup>2</sup> today. To add to the woes of equity MFs and ULIPs, real estate has turned in a relatively stronger performance during this period, and gold prices have recorded a big surge—thus further undermining the attractiveness of stocks and equity-related asset classes as investment avenues (as shown in Exhibit 1.4).

Add to the above the fact that the Indian market has a unique characteristic, which is the relative attractive returns on bank deposits. Insurance products clearly struggle to compete on returns with bank deposits. Not surprisingly, the share of insurance in the

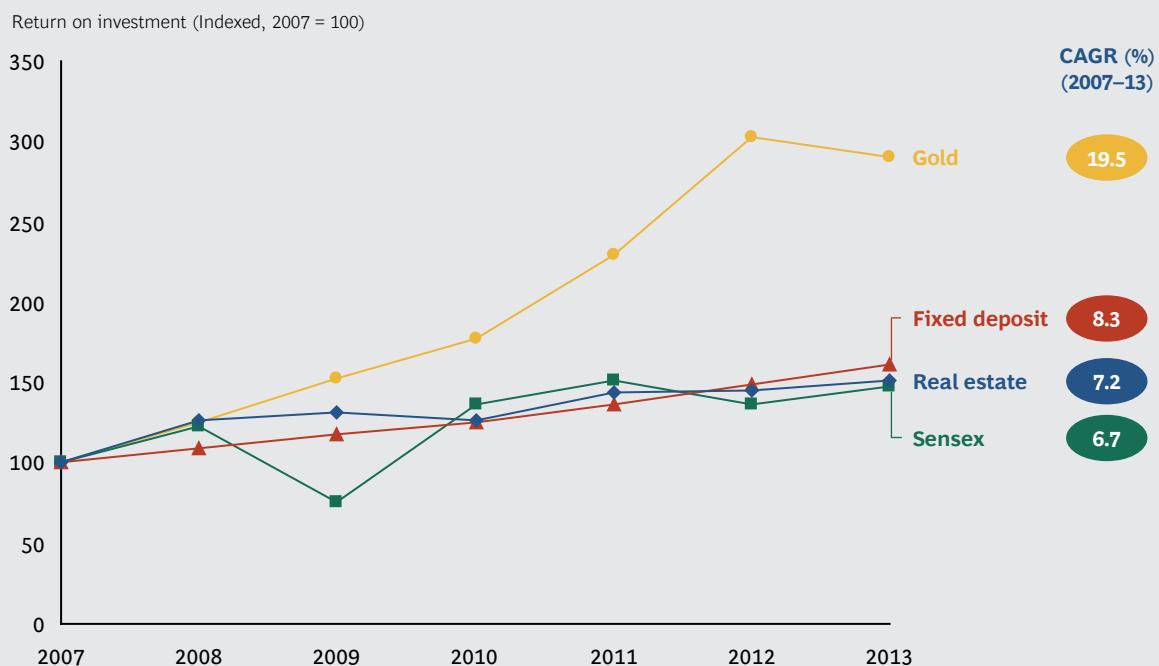
### EXHIBIT 1.3 | Financial Savings Over 40 Percent of Household Savings Since the 80s.



Source: RBI

## EXHIBIT 1.4 | Gold has Outperformed Other Key Asset Categories Since 2007

Returns across key asset categories (2007–13)



Sources: CRISIL; RBI; BSE; MCX Gold commodity prices; BCG analysis.

Note: Real estate returns estimated based on CRISIL Capital value index (For 10 major cities). Real estate returns are for 1 calendar year backwards, for example, FY 2013 is for calendar year 2012. Fixed deposit returns are estimated based on SBI Fixed deposit interest rates for 1 to less than 2 years period. BSE index considered for 1st April from 2007–2013. Gold prices considered for 1st April from 2007–2013

overall financial savings pie has fallen, from a peak of 26 percent in 2010 to 16 percent in 2013<sup>3</sup>. Combine this with the fact that a bigger share of household savings is getting allocated to physical asset classes—at the cost of financial instruments—and the result is a double hit for the life insurance sector.

### TOPLINE FOCUSED INDUSTRY MODEL

While the recent economic challenges have not helped matters, the industry hardly furthered its cause by following a topline focused operating model with a land grab mindset during the first few years of its operations. The initial phase saw most players get carried away with the “gold rush” sentiment. It was exactly like the Wild Wild West, with most insurers solely focusing on top line growth and not focussed on customer value and / or sustainable profitability.

Some of the key challenges of this model are highlighted here:

- **Fixed cost agency model:** The agency structure in India was constructed with a singular focus on expansion and scale, and not on efficiency. All private players that started business since FY 2001 copied the existing LIC model of providing substantial, fixed salaries to the agency managers (development officers at LIC) and the sales management pyramid on top. And, that too, to manage a part-time agency with low activation rates<sup>4</sup> aggravating the problem. To illustrate the inefficiency of such a set-up, if one looks at the private life insurance industry (excluding LIC), we estimate that the sector has nearly 60,000 agency managers to oversee an agency force of nearly 1,000,000 (over 90 percent of whom work on a part-time basis). With an average activation rate of about 20 percent, this means almost 60,000 agency managers managing 200,000 agents, implying a span of control of

almost three. And if one were to add the sales pyramid on top of the agency managers, it means that there are approximately three and a half to four managers for every ten active agents. Clearly, the fixed expenses associated with this management structure are quite difficult to recover.

- ***High-cost infrastructure model:*** Continuing with the “gold rush” spirit in their early days, many insurers went overboard with their branch and regional / head office infrastructure. A lot of private-sector players constructed gilt-edged branch offices, typically front-facing ones—that too, on the ground floor. It was not uncommon to find 3,000 to 4,000 square feet branches with large meeting rooms and expensive furnishings. In reality, however, all that the insurers needed were agency docking stations, given the low-productivity agency channel described above. Clearly, the industry was far removed from reality as far as optimizing its infrastructure-related expenditure was concerned.
- ***Undifferentiated bancassurance model:*** Bancassurance for private players has been considered a success, with this distribution channel already accounting for approximately 45 percent of the private life insurers’ annualized new business premium (ANBP) in FY 2013. It is interesting to note that the sector’s success on the bancassurance front has been driven primarily by private banks—both Indian and foreign—with insurers having had limited success in their tie-ups with PSU banks. One of the reasons for this has been that insurers have treated bancassurance similar to agency, pushing largely the same products via both channels—a practice not prevalent anywhere else in the world. Globally, the bancassurance framework is typically customized, and very different from the agency model, in the sense that it focuses on simpler and more bespoke products to leverage a given bank’s assets—in terms of enabling bank employees to sell, as well as to meet the specific needs of the bank’s customer base.

• ***Forgetting the end customer:*** During the early phase of the industry’s development, companies tended to treat intermediaries as their main customers, at the expense of end consumers. Product customization was largely designed for the channel than for the end customer. Such an approach ensured that, on the margin, the focus was on increasing the product “push” by optimizing the incentives for channel, rather than on increasing the “pull” by creating more value for the end customer. No wonder then that the average tenure of insurance products hit a low of nearly six years vis-à-vis the pre-privatization average of nearly 12 years (close to the global average). The larger focus on the channel, as compared to the end customer, has also resulted in unchecked selling, including mis-selling in a few cases. All the above led to an unsustainable model which fell apart post the initial honeymoon period of six to seven years when the promoters / shareholders asked for returns / profits in exchange for capital.

#### DRASTIC AND RAPID REGULATORY CHANGES

The third major factor to have impacted the insurance industry’s fortunes has been regulatory action. Policy-related changes introduced over the past few years by the industry watchdog, in relation to channels and products, have thrown up additional challenges for insurance players. While one can argue that the regulator was forced into ringing in the changes given the industry’s challenged operational model, a case can also be made that the regulatory measures have been rather excessive and rapid which has adversely impacted the sector’s growth. For example, the existing commission structure for channels in India is one of the lowest in the world, making it less attractive for the intermediaries to sell insurance products. While lower insurance commission costs are great from the customer value point of view, this has large implications for the viability of the channels, as well as for the industry’s overall growth prospects. In addition, the pace of change regarding products and the fact that it impacted existing products as well has resulted in severe disruption in the insurer’s business.

## The Industry Response to the Challenge

The good news is that it is not as if the industry is not aware of the challenges. Once the initial euphoria died down and some hard questions were asked by shareholders following the 2008–09 slowdown, most insurers woke up and have taken multiple steps over the past five years to address the problem areas. Highlighted below are some of the key measures taken by the industry to overcome the challenges:

- **Rationalization of the sales force:** As the pressure on the industry from the regulator as well as shareholders increased, insurers responded by taking a hard look at their agency force and cleaned the tail of the sales force. The number of agents deployed by private insurers has fallen by nearly 500,000 over the past five years, from a peak of 1.5 million<sup>5</sup> in FY 2009 to about 1 million<sup>5</sup> in FY 2013. In addition, there has also been

a rationalization of the corresponding sales pyramid.

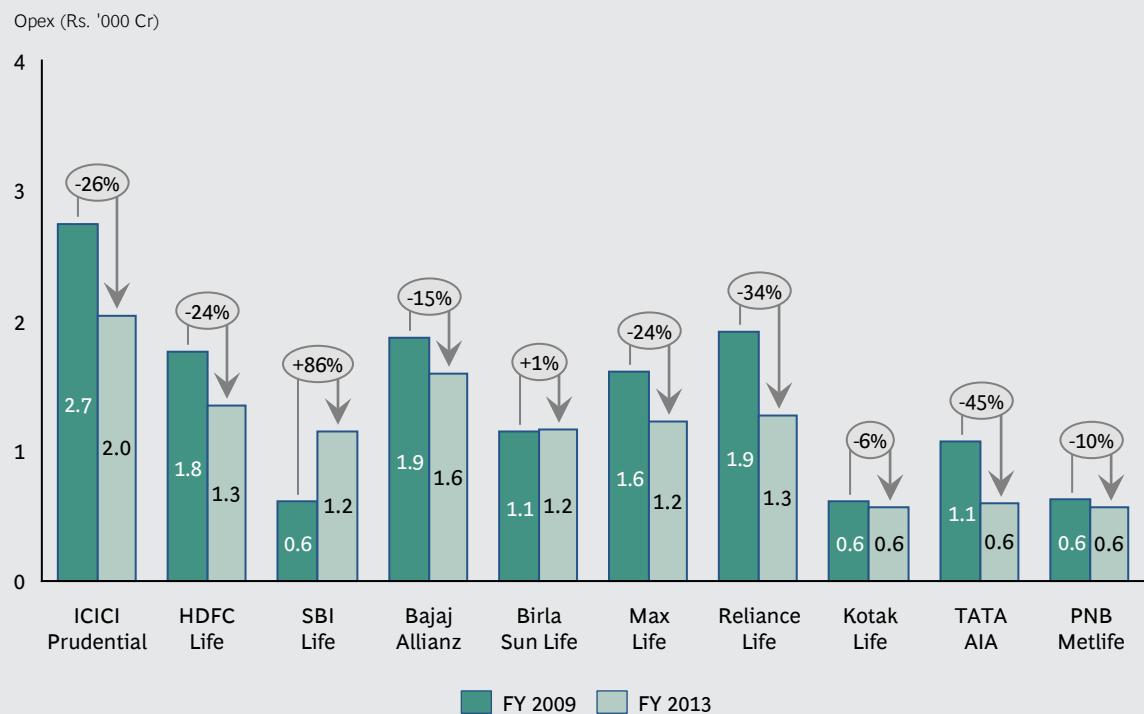
- **Rationalization of infrastructure / costs:** As the pace of growth for the overall industry has tapered off in the last five years, all the insurers have focused intensively on optimizing their costs. The number of branches operated by private insurers has declined from a peak of nearly 8,800<sup>5</sup> in FY 2009 to nearly 6,700<sup>5</sup> in FY 2012. In addition, the formats of branches have been rationalized to manage costs. Most insurers have reduced their overall operational expenditure by 20 to 30 percent (as shown in Exhibit 1.5).

As a result of the above steps, the ratio of opex to total premium for the private life insurance industry has reduced, from 26 percent in FY 2009 to 18 percent FY 2013.

- **Tapping new opportunities:** Companies have also tried to tap newer and emerg-

### EXHIBIT 1.5 | Strong Dip in Operating Expenses Across Insurers

Operating expenses for top 10 private players—FY 2009 vs. FY 2013



Source: IRDA; Public disclosures; BCG analysis.

ing distribution channels like digital, and accordingly adapted their products and pricing structures to offer increased choice to customers.

The industry has undoubtedly made some big moves over the past few years to address its current challenges. However, the sector has operated with an inward looking perspective, focusing aggressively on costs, but not doing enough to look outward to end customers and improving the value proposition for them.

## The Evolving Market—What to Expect in the Immediate Future

As the life insurance industry looks to navigate through its teen years and deal with existing challenges, it will also have to brace itself for some of the critical elements of evolution over the next few years. The key evolving elements are listed below:

- ***Opportunity for growth:*** One of the principal growth drivers for the sector will be India's GDP expansion, as well as a continued high savings rate. The key question then becomes as to whether financial savings, as a proportion of household savings, can rise from the latest level of 36 percent<sup>3</sup> to almost 50 percent. Considering that India was already at 52 percent—on this parameter—in 2008 and many developed markets are currently at similar ranges, for example, U.S. at 66 percent, U.K. at 58 percent and Germany at 43 percent<sup>6</sup>, there is scope for India. We estimate that there is opportunity for the Indian life insurance industry to grow 2 to 2.5 times by 2020. This potential estimate is based on the assumption that the savings rate will continue around its current ratio of approximately 25 percent of GDP, share of financial savings as a proportion of total household savings will remain between 35 and 40 percent, and life insurance will account for nearly 20 percent of financial savings.
- ***Digital mega trend:*** Digital is one of the biggest mega trends impacting all aspects of life and business today. There is

incredible progress and change on many counts in the digital world:

- Internet connectivity: Nearly 160 million<sup>8</sup> people in India currently have access to internet, with the figure expected to double within the next three years
- Mobile penetration: The mobile subscriber base is likely to increase from over 600<sup>9</sup> million presently to nearly 800 million within the next three years
- Spread of social media: India already has the second largest Facebook subscriber base in the world<sup>10</sup>
- ***Increasingly demanding customer:*** Today's customer is increasingly aware and demanding, in terms of his / her expectations from the service provider. The younger, more digitally savvy, customer is more demanding in particular. End consumers are seeking out more customer-centric offerings—cheaper products, faster Turnaround Time (TAT), better service on all counts, multi-channel integration, and so on.
- ***Challenge for insurance industry to attract talent:*** When the private-sector life insurance industry started operations in India in FY 2001, it was seen as a sunrise sector, and attracted a large pool of talent from a wide array of verticals. However, most corporate employees no longer see life insurance as an attractive profession, a perception likely influenced by the multiple challenges the industry has grappled with over the past 12 years—the primary one being stagnant business growth since FY 2008.

## The Industry Agenda Ahead

The life insurance industry is clearly at the crossroads. Some really hard calls will need to be taken because a business-as-usual approach involving incremental tweaking is not going to be good enough. The industry requires disruptive changes to break out of the tough situation it currently finds itself

## EXHIBIT 1.6 | 5 Point Agenda for Life Insurance Industry

1	2	3	4	5
<p><b>Rediscover growth—double over the next few years</b></p> <p>Breaking out of status quo on agency</p> <p>Realize the full potential of bancassurance</p> <p>Scaling up of the “third leg”</p>	<p><b>Recreating a compelling value proposition for the “customers”</b></p> <p>Adopting a customer centric model</p> <p>Identify our customers and customer segments</p> <p>Create end-to-end service delivery model</p>	<p><b>Embrace digital wholeheartedly</b></p> <p>Differentiated sales channel</p> <p>Platform for multi-access services</p> <p>Multi faceted marketing vehicle</p> <p>Core part of the operating model</p>	<p><b>Rethink cost structure from scratch—halve cost ratios</b></p> <p>Double productivity (Sales force effectiveness)</p> <p>Operating model overhaul</p> <p>Drive coopetition / partnering within the industry</p>	<p><b>Create a winning organization</b></p> <p>Create appropriate sales management pyramids</p> <p>Drive leadership development</p> <p>Build a future ready organization</p> <p>Create a customer centric and winning mindset</p>

in. Based on the sector’s existing condition and challenges, as well as the likely elements of evolution, BCG has identified a five-point agenda for the industry, as shown Exhibit 1.6.

THE following five chapters lay out the agenda for the life insurance industry, each one of which is addressing all of the agenda items in Exhibit 1.6.

### NOTE:

1. IRDA website.
2. AMFI website.
3. RBI.
4. Activation rate is defined as the ratio between the average number of agents selling 1 policy a month and the total agents on rolls of an insurer.
5. IRDA annual report.
6. UK: Office for National Statistics; Germany: Deutsche Bundesbank; US: National Bank of Canada special report.
7. Total household savings have grown at 15 percent CAGR (real growth) for the last 5 years and 11 percent CAGR (real growth) for the last 3 years (RBI website). Assuming conservative estimate of 11 percent growth.
8. The Economist Intelligence Unit.
9. TRAI; The Economist Intelligence Unit.
10. Lim Yung-Hui, Forbes.com, India is Now Facebook Nation No. 2, Behind the U.S., 2nd February 2012; Facebook Users in the World, Internet World Stats.

# REDISCOVER GROWTH IN DISTRIBUTION—MORE THAN DOUBLE OVER THE NEXT FEW YEARS

IMPROVING THE PRODUCTIVITY AND quality of distribution networks will be the core challenge for the industry, if it is to successfully overcome the continued pressures relating to growth and profitability. While this action item has been on the industry's agenda over the past few years, and initiatives are being undertaken, the journey is still in its early stages with certain hard choices yet to be made. There are three categories of channels to be considered for action by insurers—the agency network, bancassurance partnerships and finally the third leg (comprising in-house sales forces, digital, corporate agents and brokers), as shown in Exhibit 2.1.

## Contrasting Challenges Exist Across the Primary Sales Channels

Agency contribution to new business premium for private life insurers has nearly halved during the past five years, without any meaningful improvement in profitability—indicative of a serious risk vis-à-vis sustainability. In contrast, while bancassurance has registered significant growth in new business premium in the past, with better economics, growth is now tapering off despite low penetration. Scaling up the third leg is critical for life insurers to build a more diversified and stable distribution mix—however, the challenges and priorities differ by specific channels. For broking, a mutual re-alignment of expectations and business models of channel

players and insurers is required to maintain relevance for the channel, whereas in the case of digital, the priority is to build and execute against a roadmap geared to delivering multi-fold growth.

## Breaking Out of Status Quo on Agency

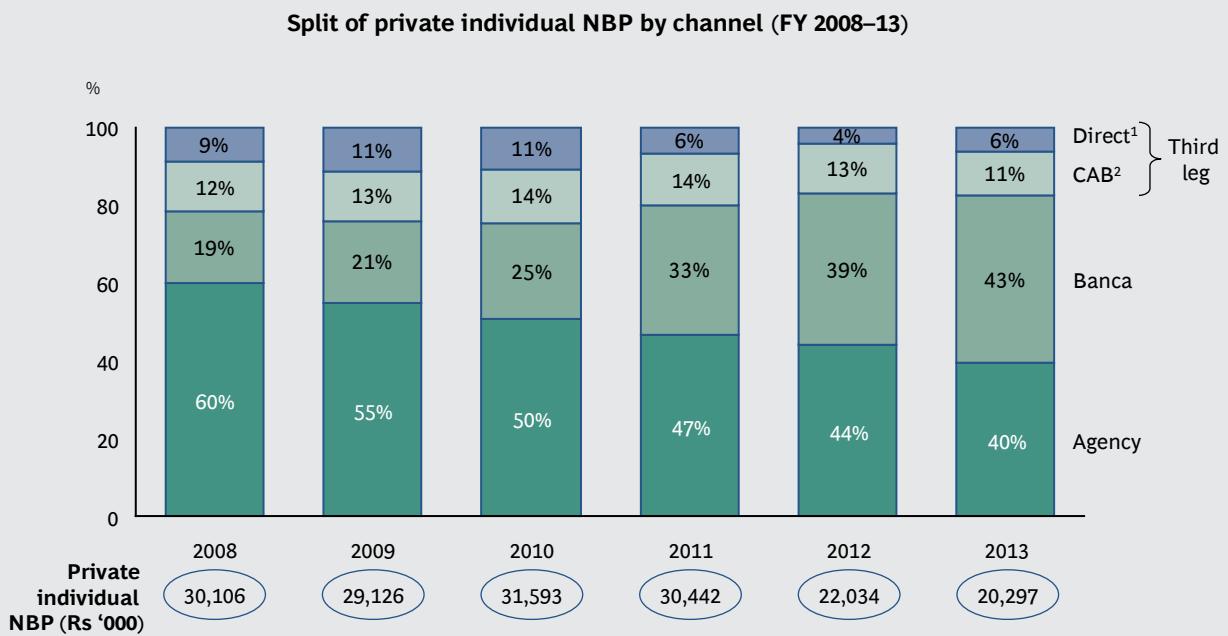
### FINDING THE HOLY GRAIL—MODEL CHALLENGED

For private players, new business premium collected through the agency channel in FY 2013 has decreased by more than 50 percent since FY 2008 (as shown in Exhibit 2.2). This continued decline in top line, coupled with the persisting pressure on profitability, poses a serious challenge to the long-term health of private insurers, which need a robust agency channel for sustainable growth.

The channel continues to be plagued by low productivity levels, and incremental improvements on this front will not be enough. Despite interventions by insurance companies over the past two to three years, the average productivity of agency managers has not seen enough increase and it continues to track around 40 to 50 percent lower than the levels required for the channel to break-even.

At the root of this problem is a business model that is fundamentally challenged, one that is highly unlikely to deliver success if we con-

## EXHIBIT 2.1 | Three Categories of Channels—Agency, Bancassurance and the Third Leg



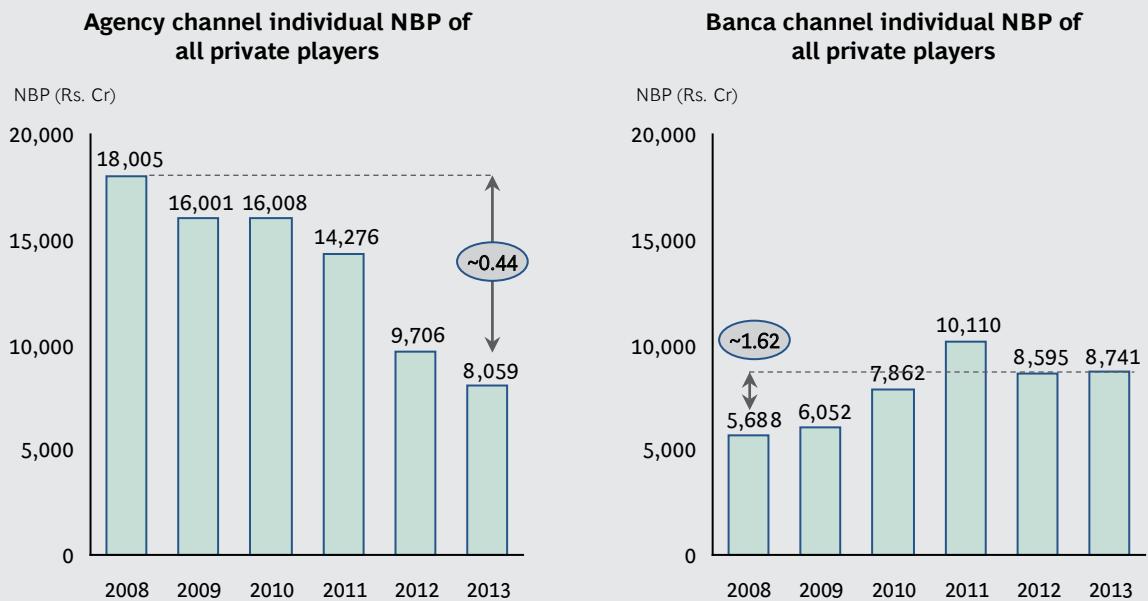
Source: IRDA, Public disclosures.

Note: FY 2008 to FY 2012 split is based on IRDA annual reports, FY 2013 split is based on data from public disclosures of private life insurers.

<sup>1</sup>Including in-house sales force, tele and online.

<sup>2</sup>Corporate agents and brokers.

## EXHIBIT 2.2 | Sharp Drop in Agency; Bancassurance up 1.6 Times over Last Five Years



Source: IRDA, Public disclosures.

Note: FY 2008 to FY 2012 data is as per IRDA annual reports, FY 2013 is as per public disclosures of all private life insurers.

tinue with status quo on the key dimensions. The existing setup is characterized by: agency managers with a high proportion of compensation as fixed salary, overseeing a part-time agency force, with low spans of control (average 12–18 agents per agency manager) and low activity levels (20–25 percent activation ratios). Broadly, an agency manager, on average, has only two to four active agents per month, each active agent generating between Rs. 30,000–45,000 of annualized new business premium per month. Clearly, this arrangement is not geared for the insurer to realize positive margins from the channel.

#### **NEED FOR A MULTIPRONGED, DISRUPTIVE AGENDA FOR AGENCY**

We believe insurers need to pursue a multipronged, disruptive agenda, as outlined below, to move the channel toward long-term sustainability.

**Transforming the structure and economics of the channel:** For companies keen on breaking the status quo there is no choice but to test, learn and transform the agency model.

This will require transformative moves on core dimensions including, for example, spans of control per agency manager, role of the agency manager, role of the branch manager and even compensation structure of managers. While at an industry level, the degrees of freedom on dimensions such as the part-time nature of agents is limited—there is a pressing need to take a hard look at other structural elements.

For example, unless private insurers can double the number of active agents per agency manager, leverage on the high fixed cost base will be insufficient and channel economics will continue to struggle. Achieving a significantly higher span of control of agents per agency manager (20–25+ agents per manager) will be a key driver for this. Globally, in markets which see predominantly full-time agents with high activation—the average spans of control per manager are higher than what we have in India. Similarly, there is a need to evaluate key roles. Should the agency managers play more of a managerial role or a sales role? How can these managers strike the right balance as “play-

er-coach”? Branch managers have typically focused only on volumes—but there is a clear need to build a value and margin focus while evaluating performance at the branch level. This will require an enhanced skill set among branch managers and importantly a change in vocabulary (and metrics) for how we steer them.

Globally, in agency structures with dominance of part-time agents and low activation ratios, we see a combination of conditions to make the economics work—for example, a more variabilized compensation structure for agency managers, higher leverage through broader spans of control (excess of 20–25 agents per manager), “entrepreneurial agencies” with “senior agents” building their own team of agents (backed by support from the insurer) thereby creating sufficient leverage below each agency manager. We also see a clear shift in focus from volume to value while managing successful agency forces—with sales organizations judged on margins with even explicit linkage of compensation to value based metrics.

While insurers need to work out solutions specific to the domestic context, unless they break the “structural status quo”—the channel will continue to struggle. Attempts are being made to pilot alternate structures—however, there is a need to more wholeheartedly and urgently commit to addressing the structural imbalance. Some short-term pain might be necessary for long-term success.

**Structured program of productivity enhancement:** Fundamental transformation of the agency force needs to be accompanied by a set of systematic interventions for enhancing productivity. These include:

- ***“Back to the basics” in terms of sales and sales management:*** Successful sales forces and agencies drive higher productivity with a focus on basics—higher “volume” of commercial activity, better “focus” backed by strong activity planning, and higher “quality” sales interactions leading to better conversion. For example, BCG’s experience clearly indicates an opportunity for insurers to increase the number of customer meetings, through better activity

planning and monitoring and leveraging technology. Enforcing this simple lever can significantly enhance productivity. In the case of agency managers, the best of the lot differ from the rest on certain basic, yet, critical dimensions. For instance, they spend more time on activity planning and joint calls with their teams, and adapt their activities and focus to distinct segments of agents. Successful insurers support this focus on basics through appropriately designed enablers that cover training, sales aids and tools, performance assessment and incentive design.

- **Segmented and tailored interventions:** Teams of agents overseen by agency managers are heterogeneous in nature, characterized by different levels of activity and productivity. There is value for the insurers in designing a simple and actionable segmentation (for example, based on activation ratio, productivity per agent) facilitating more targeted interventions by agency managers. Similarly, branch managers need to align their actions with the specific profiles of agency managers—vintage is typically the first level of segmentation, other levers being the size of the agent team, activation ratio and productivity per agent. The objective of this exercise should be to keep the design simple and actionable, to profile segments using easy-to-extract data, and to roll out action agendas customized by segment—in order to drive higher returns on productivity enhancement programs.
- **Steeper productivity curve by vintage:** Older vintage agency managers (12 months and above) need to contribute more. A high proportion of such managers continue to operate below break even levels, with limited focus on key drivers of higher productivity (be it efforts in building the team size or in driving higher productivity among their agent pool). Companies need to de-average the pool of high vintage managers and roll out a set of interventions combining sales management and enablers that enhance average productivity of this group. This also requires tightly designed and administered performance

improvement plans for agency managers in their first year so that fundamentally average to poor performers don't continue in the system.

- **Improved vintage mix:** Insurers need to improve the vintage mix by addressing high levels of attrition among early vintage agency managers. Tightening recruitment criteria, setting realistic targets and early tenure management of agency managers can be helpful in this regard. Branch managers have a key role to play in helping groom new agency managers—through proper commercial-activity planning and joint calls to help the latter raise their performance in the first few months, as well as through instilling of skills required for the long term. Linking branch manager performance assessment to agency manager attrition is also a crucial lever in improving the vintage mix.

**“Disrupting” the cost structure:** Over the past two to three years, the industry has undertaken a set of steps to rationalize the cost structure of the agency channel. While the biggest lever is productivity, there is scope for more disruption by means of further optimization and variabilization of costs. For example, there is an opportunity to examine options using specialized entities for outsourcing and managing certain non-sales processes across the value chain. This can help companies meet customer service requirements in a more cost-effective manner, expand their client base and service customers in locations which would otherwise be unviable—and even increase their sales teams' bandwidth to concentrate on sales. In addition, greater use of technology for sales whether in terms of lead management or at point of sale (for example, tablets) can raise productivity by 20–30 percent.

**Increase in channel persistency to improve overall economics:** Low persistency in the channel continues to be a challenge. Besides tougher licensing norms for agents linked to persistency—there is a need for insurers to increase the onus on agency managers, by linking the latter's compensation more tightly to performance on persistency. The channel

also needs to be supported by more robust persistency management programs, backed by analytics and tighter processes. It is also imperative for insurers to modify the selling process so that customers are able to fully understand the commitment they are entering into; this would reduce the chances of customers dropping off early in the tenure of the policy. This point is elaborated upon later in the chapter titled ‘Recreating a compelling value proposition for customers’.

**Redefining the value proposition of the channel:** A return to growth will require building the talent pool—in terms of quantity and quality of sales teams. Insurers need to carefully evaluate the recruitment pools for agents and agency managers and redefine their value proposition to attract and retain the right talent.

Importantly, insurers also need to relook at the channel proposition for customers. Recent research by BCG’s Center for Consumer and Customer Insight reveals dissatisfaction among customers with certain attributes of agents—customers complain that agents only propose one policy with little flexibility on discussing alternate options and that agents often offer insufficient information on the policy. In addition, the level of influence of agents on customer decision making while buying insurance is significantly lower among high income groups.

## Realizing the Full Potential of Bancassurance

### **GLASS HALF-FULL, HALF-EMPTY**

While new business premium from bancassurance has grown over the past five years, the industry is yet to realize the full potential of the channel. Growth has tapered off in the last two years, it is uneven with public sector banks showing significantly lower penetration and even private sector banks showing scope for higher coverage of their customer base.

With over 90,000 bank branches, majority of which don’t sell life insurance in any consistent manner, the upside is significant—for insurers to drive much needed growth, for banks to meet requirements of their customers and increase fee income and, most importantly, for them to jointly drive increase in

life insurance penetration in the country. It is therefore critical for all stakeholders to build this channel responsibly—facilitating growth with quality.

It is incumbent on insurers to work jointly with their bank partners to design and implement models that maximize the potential from the channel. This is true not only for private insurers but even LIC, which with its wide set of bank tie-ups can significantly enhance sales through bancassurance.

### **PARTNERING OPTIMALLY TO MAXIMIZE VALUE**

The following key imperatives are core to maximizing potential from the channel. These include:

- Optimal model designed by insurer to maximize partner productivity
- Customization of model by bank context
- Bank support to the partnership
- Long-term mindset

**Optimal bancassurance model:** Successful models deployed by insurers in conjunction with bank partners include the following pillars:

- **Effective sales management to maximize productivity:** This includes working with the bank partner on the end-to-end sales process to drive higher lead generation and better lead management to increase conversion ratios; the specific support is a function of the bank context. The model needs to be customized to maximize business from both—branch and non-branch verticals of the bank. Insurers should closely map their sales organization to their partner’s structure and ensure that on-ground resource allocation and target setting are aligned with the true life insurance potential of a bank branch / unit (rather than total business of the branch). Additionally, sales aids and tools, structured training programs, automated and comprehensive MIS—all customized to the nature of the bank including the bank vertical—help enhance bancassurance productivity.

- ***Seamless service support and integration:*** Successful bancassurance partnerships provide seamless service experience from sales, to issuance and then servicing of policies. Insurers, depending on the scale of the partnership, should examine providing dedicated or designated operations / backend support for policy issuance and servicing. Insurers should integrate technology and key processes with the partner bank's POS systems and servicing platforms. This also facilitates a seamless experience for bank customers—such as one account view of banking and insurance products.
- ***Targeted sales with partner leveraging customer analytics, needs assessment and aligned portfolio:*** As banks strengthen their CRM platforms and leverage analysis of customer needs and data to drive sales—insurers can complement these initiatives by integrating their data and understanding of customer needs vis-a-vis insurance with bank platforms. Such integrated need based propensity models can be deployed at the bank to aid sales by bank staff with information on—"who to approach, with which insurance product and what sales themes". Insurance sales by bank staff that is need based and draws on relevant analytics not only reduces sales effort but improves customer experience. Insurers also need to work with the bank partner to offer the product portfolio appropriate for the channel; this should be based on joint product councils and annual product development plans. Simple products which are easier to sell by bank staff are important to drive penetration.
- ***Alignment with partner priorities:*** Clear alignment with the bank's business priorities and aspirations from the relationship are core to success. For banks committed to building this business, insurance should be treated as any other bank product in the bank's vocabulary and senior level commitment is a must. Insurers need to align their relationship management approach with the bank's culture; and their sales organization with the bank's structure. Establishing and adhering to a clearly defined governance

model is a key requirement. BCG's experience with successful bancassurance partnerships in India clearly suggests that—higher the integration, on vision, culture and operating model—better the chances of success.

***Customization of model by bank context:*** Bancassurance tie-ups need to be customized according to the unique attributes of the partnership. In general, bancassurance partnerships involving PSU banks vary from those relating to private banks. The different context of the partners requires customization along the dimensions described above.

For instance, PSU bank partnerships typically have low activation ratios for both the number of branches selling life insurance and staff involved in insurance lead generation and closure. Clear focus by the insurer in tandem with the bank's regional managers and head office on raising activation ratios can provide significant upside. Similarly, the active lead generator for insurance products in a PSU bank branch is typically the branch manager (in some cases accounting for as high as 90 percent of the leads). By appropriately training certain branch staff, designating them as lead generators for insurance and setting clear targets—PSU banks can boost sales from bancassurance. Re-categorization of branches and resource allocation based on insurance potential also typically yield better results in case of PSU partnerships. Also, reward and recognition programs need to be aligned keeping in mind the difference in context and culture across public and private sector banks.

In private sector banks, especially those with established bancassurance businesses, where the upside from improving activation ratio or the number of lead generators is limited, the emphasis should be higher on maximizing staff productivity through interventions in the sales process or targeting of non-branch sales verticals through customized models.

***Bank support to the partnership:*** Irrespective of the bank's context and the need to customize the bancassurance model—complete support from the bank is critical to maximize value from the partnership. Exhibit 2.3 outlines

certain elements as examples of the assistance that insurers need from bank partners to realize the full potential of bancassurance. If banks were to become brokers, the onus on them for sales and servicing will be even higher.

**Long-term mindset:** Apart from maximizing new business sales, multiple steps focused on ensuring quality will facilitate long term success. For example, partners could institutionalize pre-issuance customer confirmation calls, promote need based sales linked to customer financial profiling, ensure stringent documentation for KYC, align sales teams with built-in weightage for persistency and, leverage analytics to detect and control suspect sales. In the long term, partners need to invest in customer education and jointly facilitate development of suitable life insurance products.

### Scaling Up of the Third Leg

The third leg, which includes a mix of proprietary channels (in-house sales forces and dig-

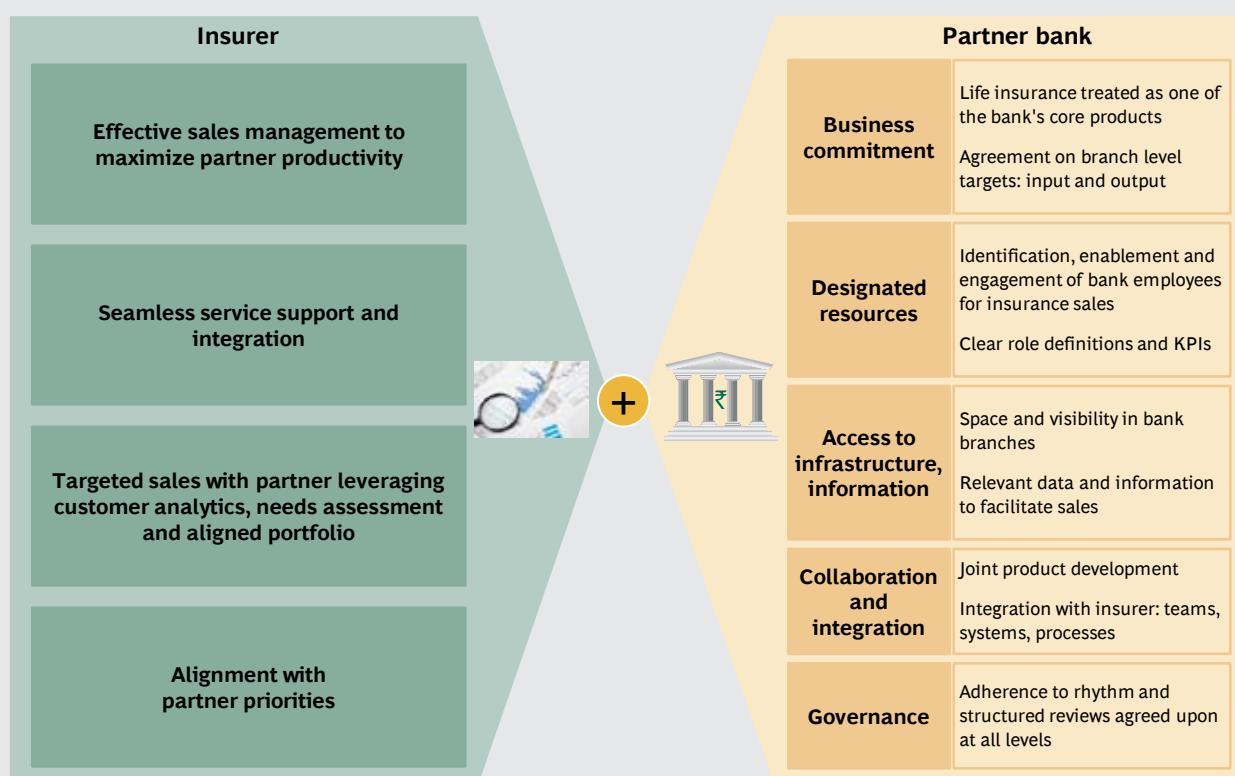
ital) and third-party channels (brokers, corporate agents including alternate channel partners with access to customers) overall is less than 20 percent of premium for the private players. Trends vary within the group—while the broker channel continues to face pressure, digital has made a strong start. Life insurers need to scale-up this third leg combined with a focus on business quality to create a more stable distribution mix.

#### IN-HOUSE SALES FORCE

Insurers have built in-house sales forces as an alternative channel to drive sales. The experience has been largely challenging since productivity has not been commensurate with the cost structure resulting in the down-sizing or closure of these sales forces.

Though the scale is capped, the channel can be built as a viable alternative offering stable contribution to the top-line (and more control to insurers)—provided insurers can design and build the channel to meet key imperatives. These include:

#### EXHIBIT 2.3 | Bank Support Critical to Maximize Value of the Partnership



- Building the channel based on availability of high quality leads rather than primarily on self-sourcing. This is critical to get the desired productivity per front-line sales person. Insurers building this channel need to align their top-line aspirations with availability of quality leads (be it their existing customer base to which they plan to cross-sell / up-sell or leads sourced from other databases) to achieve appropriate channel economics
- Organizing the sales teams and lead generation infrastructure (for example, telecallers) by type of lead and effort required to qualify the lead and drive closure
- Robust sales management program to maximize time in the field with target customers and drive higher sales conversion.

#### DIGITAL

Digital as a sales channel has started receiving attention recently from a number of insur-

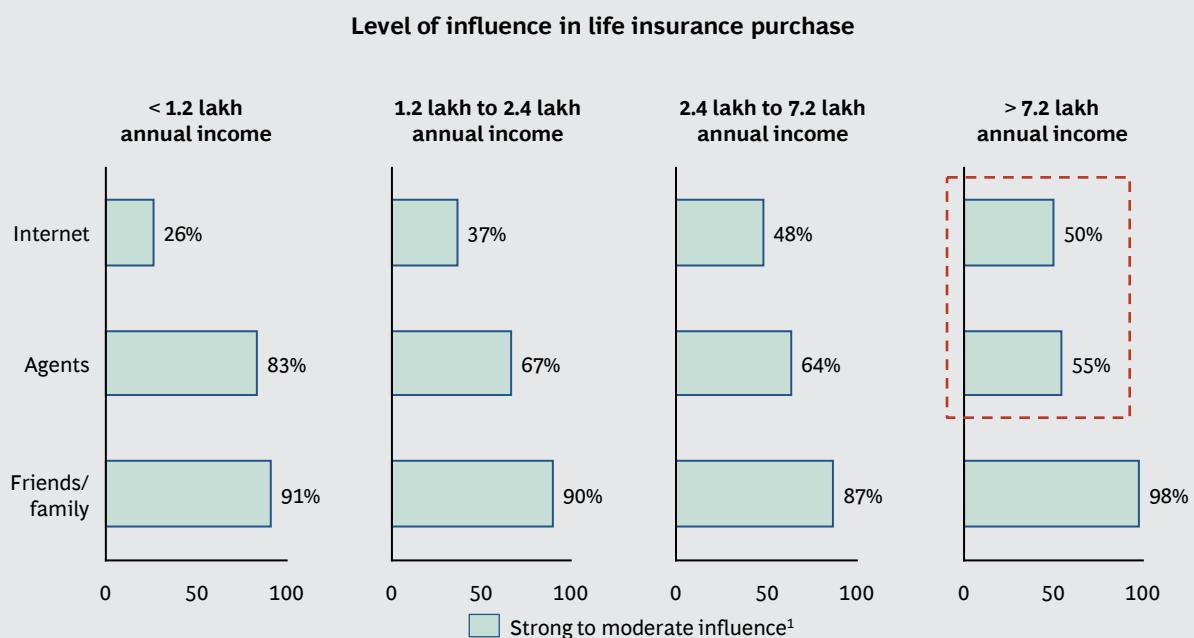
ers—and as described in the chapter titled ‘Embrace digital wholeheartedly’, the channel is poised for strong growth over the next few years. However, we strongly believe that the full potential of digital is beyond just the purchases made through this platform. As shown in the chapter, while direct online purchase of life insurance policies may be a small proportion of total life insurance sales in India, the extent of digital influence—that is, people who research online before buying insurance is already quite substantial. Recent research conducted by BCG’s Center for Consumer and Customer Insight found that for higher income groups, the internet’s influence as a decision making factor while purchasing life insurance is just marginally below that of agents—and is rapidly increasing (as shown in Exhibit 2.4).

Thus, for insurers, there is a large action agenda to fully utilize digital as a sales channel.

#### BROKERS

The last three years have been a period of struggle for the channel marked by declining

#### EXHIBIT 2.4 | The Influence of Digital Rivals that of Agents for Higher Income Categories



**Source:** BCG CCCI Insurance Survey 2013—Life Insurance users (N = 1218); BCG analysis.

<sup>1</sup>Scale used in survey between 1 and 5. ‘1’: Little or no influence to ‘5’: Heavily instrumental. Scores marked in exhibit for 4 and 5

top-line, continued levels of low persistency, and increasing regulatory pressure to tighten business practices. The channel needs a three-fold approach to enhance quality and build sustainability. These includes:

- Long-term relationship orientation, focused on: maximizing value of the partnership and enhancing business quality (not just quantity)
- Design of business models by insurers to maximize success through: optimal sales support, seamless and efficient service support, technology to facilitate business and strong product support; the model has to be beyond just competitive commissions. Insurers also need to adopt an uncompromising focus to enforce higher quality of business
- Initiatives by brokers at their end to increase business efficiency and sales quality. Long-term success will come to those brokers which make the necessary adjustments and investments in their business model to drive these objectives

A robust broker channel is a key cog in the distribution infrastructure required to drive strong and profitable growth in the industry. However, unless there is a fundamental recast of expectations and approach, the channel's relevance could come under threat.

#### **CORPORATE AGENTS**

Traditional corporate agents, for example, financing firms continue to be under-penetrated but offer an opportunity for insurers to partner and leverage existing distribution infrastructure to expand in a cost-effective manner. Scaling up this opportunity requires insurers to align their business model with the partner's context—in terms of product design, sales support (for example, customized training keeping in mind the partner's business context), efficient service support (in terms of quick medical, fast policy issuance), and technology support (for example, integrated lead tracking and sales systems).

Besides these, there is an opportunity to evaluate alternative third-party partners that offer access to large customer bases. These in-

clude, for example, telecom companies, utility companies with access to millions of customers. This will require insurers to: prioritize partners based on the access, quality and frequency of interaction that partners have with their customer base and to define the operating model for efficient lead generation and closure.

In summary, while the agendas differ across distribution channels, incremental moves will not be enough to rediscover growth and drive profitability. The time is to be bold, to make hard choices, to partner optimally and to innovate.

# RECREATE A VALUE PROPOSITION FOR CUSTOMERS

LIFE INSURANCE IS A relatively complex financial product. Selling life insurance has always been an uphill battle—for all the stakeholders. Insurance advisors, agents, other channel partners and manufacturers have had to come up with ways to make the product palatable to the customer, by creating the right messages around the product and its features.

## The Context

In several geographies, including India, such an approach of pursuing a profitable business model—at all costs—has pushed the end customer away from the centre of the business model. In part, this movement has been aided by the lack of intuitive understanding among buyers of the pure life insurance product.

In India, recent consumer research by BCG Center for Consumer and Customer Insight (CCCI) revealed that a majority of policyholders could only recall one type of life insurance plan; also, up to 70 percent of respondents without any life cover cited their lack of conviction regarding the place of life insurance in financial planning as the reason for not purchasing insurance (as shown in Exhibit 3.1).

Given this context and the recent rise in financial consciousness among end customers of insurance, it is not surprising that there has been a pushback from customers and regulators in

India and several other countries against the sales-driven business model of insurers.

Regaining the trust of customers is critical for life insurers to succeed in India. Beyond the first order impact of customers buying only products that they trust, the impact of a lack of trust is accentuated in the case of insurance as it is a product that is heavily influenced by the advocacy of friends and family.

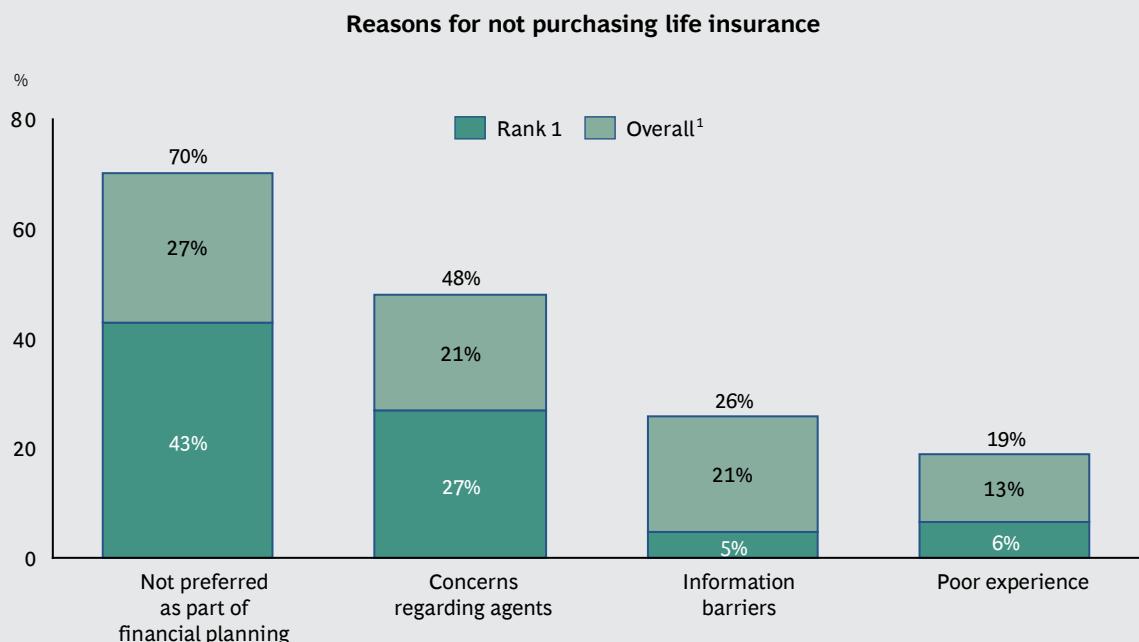
## CUSTOMER PULL AT AN ALL TIME LOW

It is hard to dispute that the difficult situation the Indian life insurance industry finds itself in has arisen due to its lack of emphasis on the end customer. The sector's failure to focus on policyholders has shown up in several indicators, the most notable of which has been the loss of renewal premiums on existing policies. If the potential renewal premium collected on a regular basis is normalized to a level that would be expected, the quantum of overall renewal premiums generated would be three times the existing figure (as shown in Exhibit 3.2).

Coupled with the loss of renewal premiums, there has been a sharp media reaction to the lack of focus on end customers of insurance companies, with several commentators criticizing the insurers.

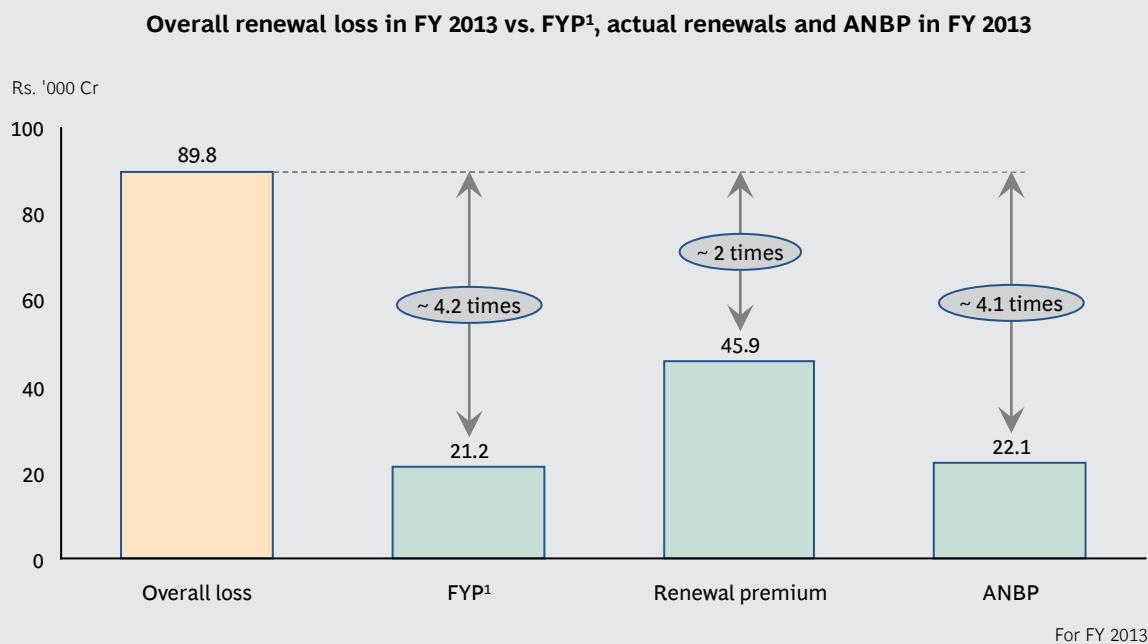
All these factors leading to the current situation in the life insurance market have creat-

## EXHIBIT 3.1 | Lack of Appreciation of Life Insurance Amongst Non Customers



Sources: BCG CCCI Insurance Survey 2013—Insurance non users (N = 1018); BCG analysis.

## EXHIBIT 3.2 | Loss in Renewal Premiums Nearly Two Times Actual Renewal Premium



Sources: Public disclosures; BCG analysis.

Note: Overall loss due to renewals calculated by summing expected renewals due to first year premium (and annual renewals) over the last 5 years. Assumptions—80% of all first year and renewal premium in the previous year is expected to be renewed. 20% loss expected from claims and financial inability to pay by the customer. Industry interviews peg this number at 80–95%. The calculations assume 80% to be generate least possible value.

<sup>1</sup>FYP:First Year Regular Premium. Not including Single Premium policies

ed a perceptible change in buying behavior of customers. A recent survey of life insurance buyers and non-buyers carried out by the BCG Center for Consumer and Customer Insight (CCCI) underscored the ongoing shift in consumer behavior with regard to such financial instruments. As many as 50 percent of those holding life insurance policies expressed clear dissatisfaction over the extent of product-related information they had received prior to the eventual purchase. A similar proportion of those polled felt that the policies sold to them were probably not the right ones given their needs, according to the study (as shown in Exhibit 3.3).

### LACK OF COMPETITIVENESS OF LIFE INSURANCE PRODUCTS AS INVESTMENTS

The competitiveness of life insurance as an investment opportunity has eroded rapidly in the minds of the customers. While the driving factor behind this may have been the lack of returns in the equity markets in India, customer sentiment and perception about the relatively high cost of investing in insurance has also played a large role. In addition, the general shift away from financial

investments to physical investments has also impacted insurance.

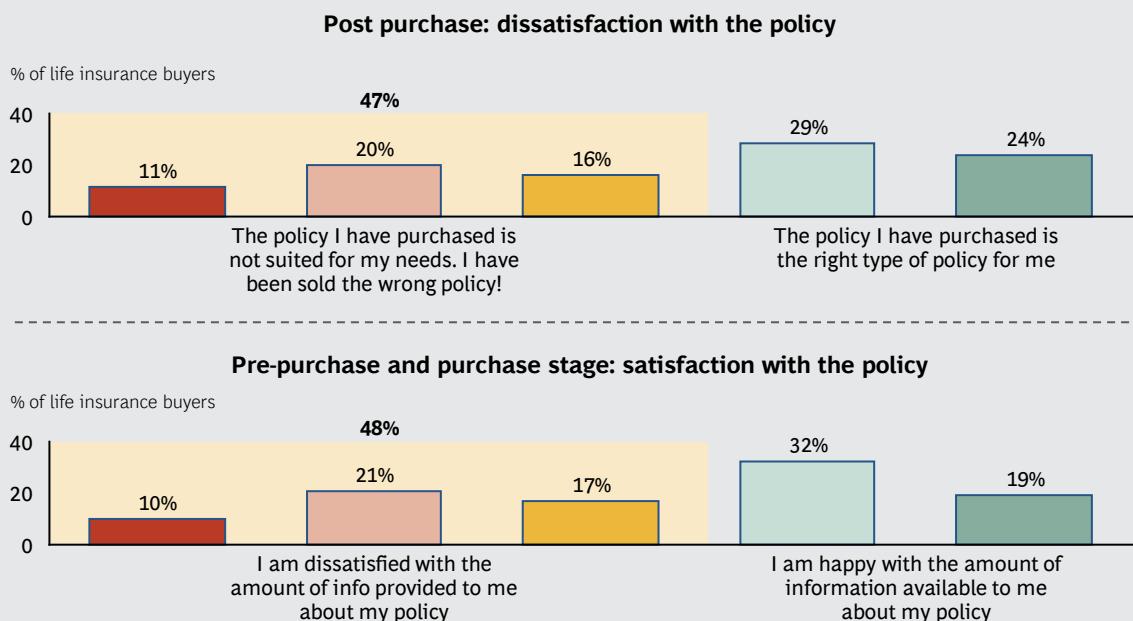
### LIFE INSURANCE INDUSTRY IS BUILT ON ADVOCACY

The relative complexity of an insurance product is well established by now. The typical buying process associated with such financial instruments is driven heavily by the recommendations of friends and family, who as a category of influencers, have the highest weightage in the sources of information the customer relies on during the pre-purchase process. Indeed, friends and family exercise the biggest influence throughout the buying process—right from the choice of brand to the final purchase decision. Put simply, advocacy is a very strong factor that can swing the purchase decision of intending insurance buyers either way (as shown in Exhibit 3.4).

### Key Capabilities to Deliver Customer Centricity

Customer centricity and advocacy, going forward, will be the key levers of success for life insurers in India. It is therefore important to

#### EXHIBIT 3.3 | Nearly 50 Percent Buyers Dissatisfied

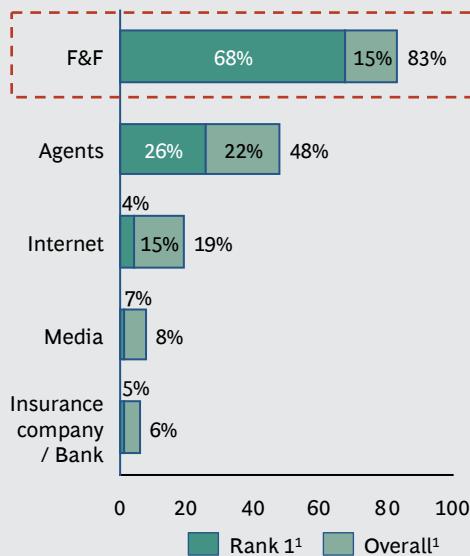


**Sources:** BCG CCCI Insurance Survey 2013—Life Insurance users (N = 1218); BCG analysis.

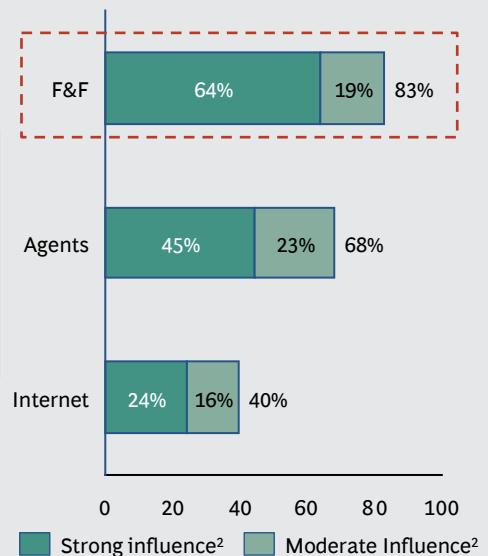
**Note:** Customers were asked for the degree of agreement with statements on opposite ends of a spectrum.

## EXHIBIT 3.4 | Friends and Family Even More Important Than Agents and Internet

Source of information during pre-purchase



Level of influence in buying process



Sources: BCG CCCI Insurance Survey 2013—Insurance non users (N = 1018), LI users (N = 1218); BCG analysis.

<sup>1</sup>Rank 1 being most important reason for not purchasing life insurance. Rank 1 and overall taken for graph.

<sup>2</sup>Scale used in survey between 1 and 5. '1': Little or no influence to '5': Heavily instrumental. Scores marked in exhibit for 1 and 2.

define customer centricity and then discuss how the same can be achieved.

Customer centricity is defined for the purpose of this report as “A way of operating, based on trust and fairness, using knowledge of the customers to meet their needs, to achieve a sustainable and valuable long-term relationship”.

This definition implies that a customer-centric insurer would:

- (Selectively) over-deliver on expectations of service experience
- Use customer insight to sell products based on customer needs
- Implement a multi-channel approach aimed at letting the customer use his / her favourite channel

In order to become truly customer-centric organizations, life insurance companies need to go through a journey of understanding who their clients are, what should they offer to cus-

tomers, and finally, how should they deliver the value proposition.

**Who are our customers?** As a first step to targeting customers, it is important to define who is the customer of the insurance company—the intermediary selling the insurance product or the end customer. Unlike in the past, it is important to re-orient the company towards serving the end customer also rather than just the intermediary.

The first step in orienting the company and the industry toward a customer-centric approach should be to identify the characteristics of end customers the life insurer is targeting. And the best way to do so will be to establish relevant and actionable customer segments.

This is particularly important because of several emerging trends in India that are affecting the financial behavior of consumers:

- Growing realization of retirement costs
- Increasing life expectancy

- Rise in living standards
- Increasing health care costs
- Economic uncertainty
- Changing tax rules

Each of these trends affects various customers differently. The recent consumer research undertaken by BCG's CCCI showed very clear evidence of different types of insurance customer—some defined by basic characteristics like age and income, but several others characterized by the customers' their basic approach to financial planning and their diligence in weighing various available options (as shown in Exhibit 3.5).

**What should we offer?:** Designing products based on value propositions for their target consumer segments is perhaps the toughest

challenge for most life insurers in India today. An ideal customer-centric product should deliver a clear, sustainable value proposition to the end buyer. In several cases, this may necessitate the creation of simple products or product packages that could be aligned with customer needs.

Revisiting the core set of risks that a life insurance policy is supposed to cover especially over the life stages of a customer can perhaps offer some clues as to the sort of products companies need to offer (as shown in Exhibit 3.6).

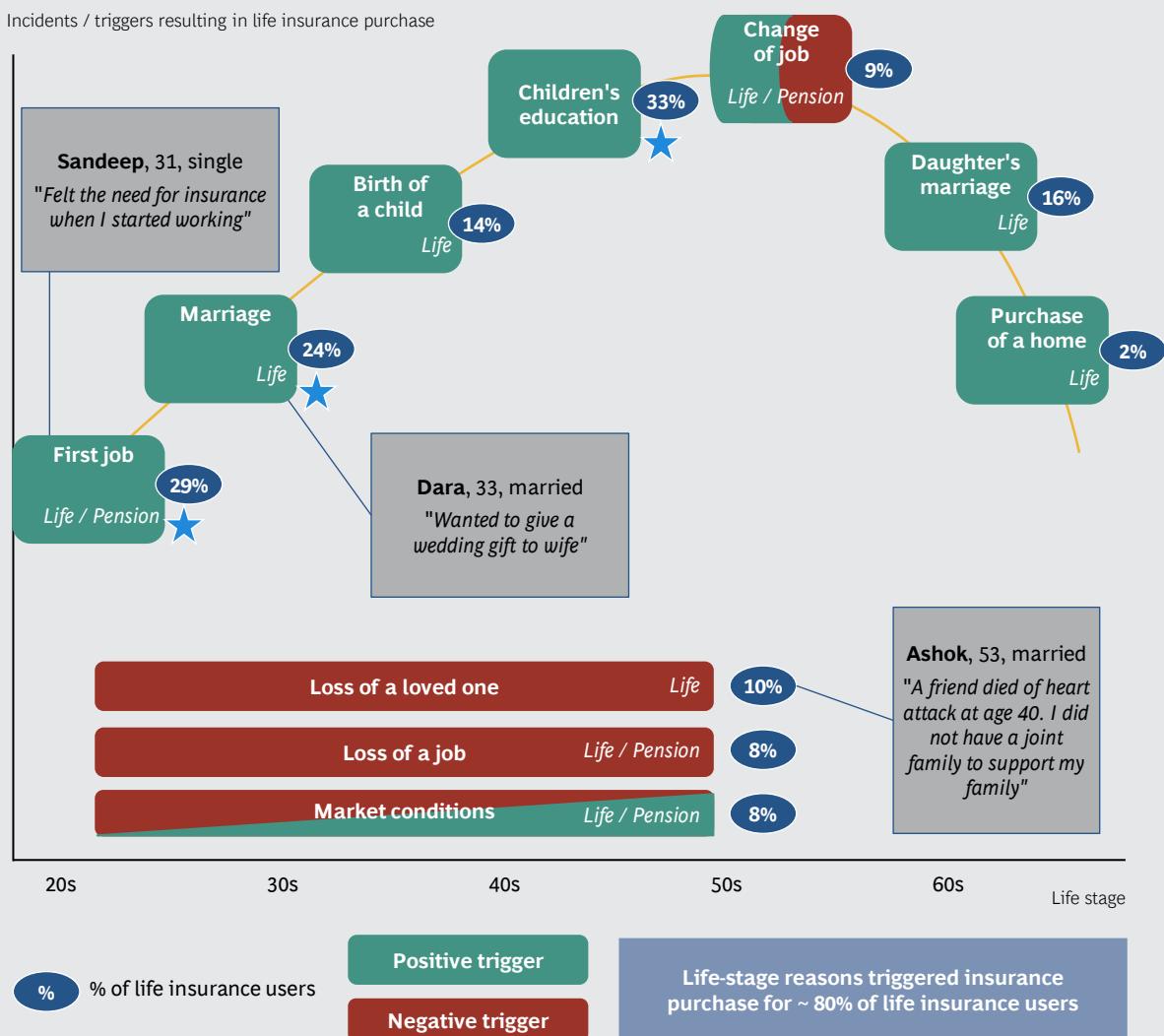
Several industry players, albeit outside India, have already started simplifying their insurance products, and are adopting a more customer-friendly approach. For instance, a Japanese insurance startup, called Life Net, is focusing on selling a limited set of customer-centric products—through a direct, online-on-

### EXHIBIT 3.5 | Understanding Customers Through Clear Segmentation

	<i>Illustrative</i>			
	Profit oriented youth	Protection oriented youth	Profit oriented mid-age	Protection oriented mid-age
<b>Age group</b>	25–34	25–34	35–54	35–54
<b>Market size of segment</b>	26%	29%	27%	18%
<b>% who responded that they want protection</b>	38%	48%	42%	53%
<b>% who responded that they keen on financial diligence</b>	40%	28%	40%	27%
<b>% who use the internet regularly</b>	12%	33%	12%	22%
<b>% who prefer term policy</b>	44%	53%	35%	46%
<b>Description</b>	Young individuals: higher digital users for life insurance purchase	Profit oriented, high diligence, prefer endowment policies	Protection oriented, low diligence digital users, prefer term	

**Sources:** BCG CCCI Insurance Survey 2013—Insurance non users (N = 1018), LI users (N = 1218); BCG analysis.

## EXHIBIT 3.6 | Insurance Opportunities Across Life–stages—Leverage Both Positive and Negative Triggers



Source: BCG CCCI Insurance Survey 2013—Insurance non users (N = 1018), LI users (N = 1218); BCG analysis.

ly distribution mode—while adopting an extremely lean operating cost structure.

Insurers will also need to evaluate their proposed products against traditional investment opportunities. The value proposition to the end customer must be clear and compelling. Some of the themes where life insurance companies can establish a clear differentiation are—pension products, packaged health insurance products, life-cycle based products etc.

### How will the proposition be delivered?:

Delivering on a customer-centric value proposition entails, perhaps the toughest internal challenges; to really walk the talk is the most difficult part. There are five key elements of delivery that need to be re-oriented toward customers to achieve this:

- Brand and marketing:
- Opening a two-way dialogue through different channels

- Commitment-based messaging
  - Values—for example, responsible citizenship
- Distribution:
  - Seamless customer experience across channels
  - Flexible operating model suited to customer needs (weekend / late night options), virtual branches
  - Personalized proactive offers
  - Need-based selling
- Service proposition:
  - Delivering on commitments
  - Exceeding expectations during moments of truth
  - Effective exception handling
  - Allowing for self service usage
- Analytics and data:
  - Customer intelligence
  - Flexible IT systems
  - Critical processes made very fast
- Organization and culture:
  - Right DNA—what is celebrated, internal discussions, executive commitment
  - Reflecting customer segments in organizational structure
  - Customer centricity reflected in metrics and measured

In summary, a life insurer needs to focus on customer centricity going forward. To achieve this, the insurer would need to answer who the customer is, what should be offered to the customer and how will the offering be delivered? This is key to becoming customer centric.

# EMBRACE DIGITAL WHOLEHEARTEDLY

DIGITAL IS A GLOBAL Mega-trend. The digital economy is here and is creating a global impact. It is estimated that at least 20 percent of the world's population is online, the number of mobile phones connections in circulation is over 7 billion<sup>1</sup> and is about nine times the number of cars in the world. These are all signs of a drastic change in the global economy. No country or company can afford to ignore this trend. In India too, the digital economy has taken root. A sign of the changing times—while horses used to be named after mythical and historical Indian heroes, they are now being named after the heroes of the digital age—Twitter, Facebook and Google.

## New Digital Consumer of India and the Growing Digital Economy in India

Over the past decade, the telecom revolution, coupled with the adoption of information technology by enterprises and households, has given rise to a vast number of digitally savvy consumers. To meet the needs of these new consumers, as well as to boost productivity levels, companies across various sectors have come up with new business models that have led to the emergence of a significant virtual marketplace in India. Today, the country has a sizable digital economy, with over 160 million internet users<sup>2</sup>. Furthermore, the domestic e-commerce market is estimated to

have grown almost six times in the past four years, attaining a size of Rs. 46,500 crore in 2013 from Rs. 8,100 crore in 2009<sup>3</sup>.

While the e-commerce numbers track digital purchases only, the bigger story lies in “digital influence”, which refers to the percentage of buyers who perform pre-purchase, purchase and post-purchase activities online.

The reach and impact of the digital economy is far greater than commonly thought. A consumer research study conducted by the BCG’s Center for Consumer and Customer Insight (CCCI) earlier this year dispelled several commonly held notions surrounding India’s emerging digital economy. Be it the profile of internet users, their modes of access to the web, the factors attracting them to online media, or the commercial impact of the digital channel, the reality is quite different from common perception. To list a few key ones:

- **Who is online?** While it is commonly believed that metropolitan cities account for a majority of the online audience, India’s emerging digital economy enjoys a far greater geographic reach—with 34 percent of internet users based in small urban towns (T2-T4), and 25 percent in rural areas. Although the 18–25 year old segment and the affluents are commonly presumed to be the key target audience online, those aged 25 or higher currently

represent 57 percent of the total number of urban internet users—with this proportion estimated to rise to 70 percent by 2016.

- **How do users access internet?** About 45 percent of urban consumers in India access internet through mobile devices only—mobile internet is not small or irrelevant as was commonly perceived to be, and its adoption will grow at a rapid pace in times to come.
- **Why do customers purchase online?** For digital shoppers, convenience and variety of offerings are as critical as discounts in driving online purchase. So, there are several drivers of online sales, with discounts being only one of them.
- **How long does it take to change mindsets?** Digital ageing—that is the amount of time a person has been actively using digital media, has a very significant impact on the online activity levels of the person. Someone with two years or more of digital age can be expected to have three times higher digital influence as compared to someone younger in digital age. This is a very rapid expansion of digital influence, and reflective of a quick change in attitudes which is contrary to conventional wisdom which says such changes take longer.
- **What ticket sizes are sold online?** The common perception is that being discount driven, online purchase ticket sizes are smaller than offline purchases. However, across consumer product and service categories, the BCG CCCI consumer research found that on an average ticket sizes of products sold online were 25–40 percent higher than those sold offline.

In the coming years, the commercial impact of digital in India will be large as the emerging digital economy records accelerated growth—driven by a rapid increase in the number of digital consumers, as well as by increased online transactions on the part of each digital consumer.

By 2014, India will have over 950 million mobile phone handsets, with smart phone pene-

tration pegged at between 14–18 percent. This massive technology push will get a further impetus from the impending rollout of 4G services, as well as from the measures announced by the government to boost broadband penetration.

In addition to a surge in the number of digital consumers over the next few years, there will be an increase in purchase activity by each digital consumer as online users of younger age groups mature and engage in more commercially relevant activities. The Indian ecosystem is also adding further momentum to the digital journey. Two recent measures—the issuance of Aadhaar, the national unique identifier program, and the dematerialization of insurance policies—will play a seminal role in furthering digital horizons. Aadhaar will help expand the scope of electronic transactions in terms of facilitating the ease of policy issuance, payments and customer identification for any service needs. Policy dematerialization will be an incentive for more consumers to move their transactions online.

All of these factors—the rapid spread of internet access, the increasing tendency to transact online and the favorable ecosystem are together expected to have a multiplier effect on the number of people purchasing online. The BCG CCCI Digital Influence study estimated that by 2016, 47 percent of Indian urban population will have internet access, from a starting point of 23 percent access today. In addition, the proportion of urban population influenced by the internet in their purchases will rise from 9 percent of the urban population to 29 percent. Finally, the proportion of urban population making purchases online will rise from 3 percent to 14 percent over the same period. This will result in nearly six times the number of digital buyers compared to today. Just for context, today's estimated number of people purchasing online in urban India is just 11 million. This is a large market opportunity. For insurance specifically, the share of digital channels in the overall annualized new business premium collected in mature markets is anywhere from 4–6 percent<sup>5</sup> already, in contrast to India's low starting position.

## The Disruptive Power of Digital

The emerging digital economy and the arrival of a new type of digital consumer are expected to disrupt business models across industries, including insurance. This disruption is expected to happen across the value chain of insurance, from product development to sales to marketing to customer service (as shown in Exhibit 4.1).

The emerging digital market poses both threats and opportunities for life insurance companies in India. Increased transparency and standardization could hit profitability and client retention; in fact, customer ratings of advisors and products may even discredit the insurer's value proposition and brand. On the other hand, richer information on policyholders will allow for better segmentation and customization, with companies able to use social networks and online communities for effective marketing and lead generation.

Moreover, insurance firms can reduce costs through the adoption of new technologies for

automation. Besides, fraud prevention and detection can lead to reduction of costs and payouts associated with the handling of claims and benefits.

The life insurance industry can leverage the digital channel to maximize revenues through greater reach and comfort for the customer during various stages of a customer lifecycle, as well as to minimize costs through realization of operational efficiency by increased automation of processes.

## Embracing Digital

In order to capitalize on the digital evolution, the time has come for the industry to move away from treating digital as an alternate or add on, and to embrace it wholeheartedly as a core part of the overall operating model. It is imperative for the insurers to adopt a comprehensive digital strategy spanning multiple parts of their business model. Such a strategy would require companies to embrace and utilize the digital channel and associated technologies to build four key elements:

### EXHIBIT 4.1 | How will Digital Revolutionize Insurance? BCG Global Research: Digital Insurance 2020

Product development	Marketing and branding	Sales	Operations	Claims and solutions
 Share feedback on social networks / communities Expect responsiveness of insurance companies Offer value-adding services, integrated into "classical product"	 Interact with insurers on social media Customer referrals through LinkedIn and Twitter Ratings and testimonials to select agent / broker of choice Contact to insurers via any communication channel	 Seamless switching between channels Unprompted specific suggestions on concrete need Individual configuration of products Transparent comparison with products of other insurers	 Easy access to portals / self-service platforms Sharing the own insurance portfolio with community / peers 24x7 availability of insurer over various channels Intuitive and easy to make changes or to upgrade products	 All-inclusive services to deal with customer problems Comfortable claim filings supported by mobile applications Automated and fast processing of claims

Source: BCG analysis.

1. A differentiated sales channel
2. A platform for multi-access services
3. A multifaceted marketing vehicle
4. A core part of their operating model

#### **A DIFFERENTIATED SALES CHANNEL**

In the recent past, the digital sales channel has gained significance for the life insurance industry in India. Beginning with tentative moves by a few players in FY 2011, all the prominent insurers are now pushing aggressively to create a robust online channel for distribution. As far as smaller insurers are concerned, they see this as an opportunity to change the rules of the game, bolstered by the fact that online channels constituted between 15 to 20 percent of total sales for some of them<sup>6</sup>. In addition, so-called “aggregators” of insurance policies are also gaining traction.

The size of the digital channel for the life insurance industry has grown in absolute terms, and will continue to do so at a rapid pace going forward. An estimated 1,10,000 term life insurance plans were sold online during the last financial year. According to industry sources and recent media reports, the market for online life insurance in India increased from Rs. 10 crore three years ago to over Rs. 200 crore in FY 2013. At a penetration of 3 percent of insurance ANBP, the online life insurance market is likely to be worth nearly Rs. 6,000 to 8,000 crore ANBP in 2020<sup>7</sup>.

Given its increasing size, innovative offerings and relatively higher profitability (as compared to other existing distribution mediums), digital is expected to become a preferred sales channel of life insurers in the future—in terms of providing a platform for the sale of lower priced offerings, as well as for generation of leads. The product offerings online, while currently largely restricted to simple term policies, will also expand rapidly to include other products like pension covers, simple investment products specific riders on existing policies and several others.

#### **A PLATFORM FOR MULTI-ACCESS SERVICES**

Digital can be a very powerful vehicle, from the point of view of life insurers, in providing

customer support and access, and should be used by industry players—across the customer life cycle—to make themselves more effective and efficient. Digital media is an increasingly important requirement for effective customer interactions. In a developed market (as shown in Exhibit 4.2), the digital channel is a key part of the customer interaction process with the insurance company.

In India as well, this pattern is starting to emerge, customers have varying levels of influence of the digital channel at different stages of the purchase process. Insurers need to recognize this and include digital in their multichannel strategy, not only as one of the mediums of interaction, but also as a platform, to integrate the customer interactions across different channels. What is interesting to note is that every channel has a share of every transaction type—multi access services are a reality (as shown in Exhibit 4.3).

#### **A MULTIFACETED MARKETING VEHICLE**

The advent of digital as a communications channel has changed the way media is consumed. Among insurance customers who are digitally influenced, the use of the media serves to make the choice of insurance brand in a large majority of cases (as shown in Exhibit 4.4).

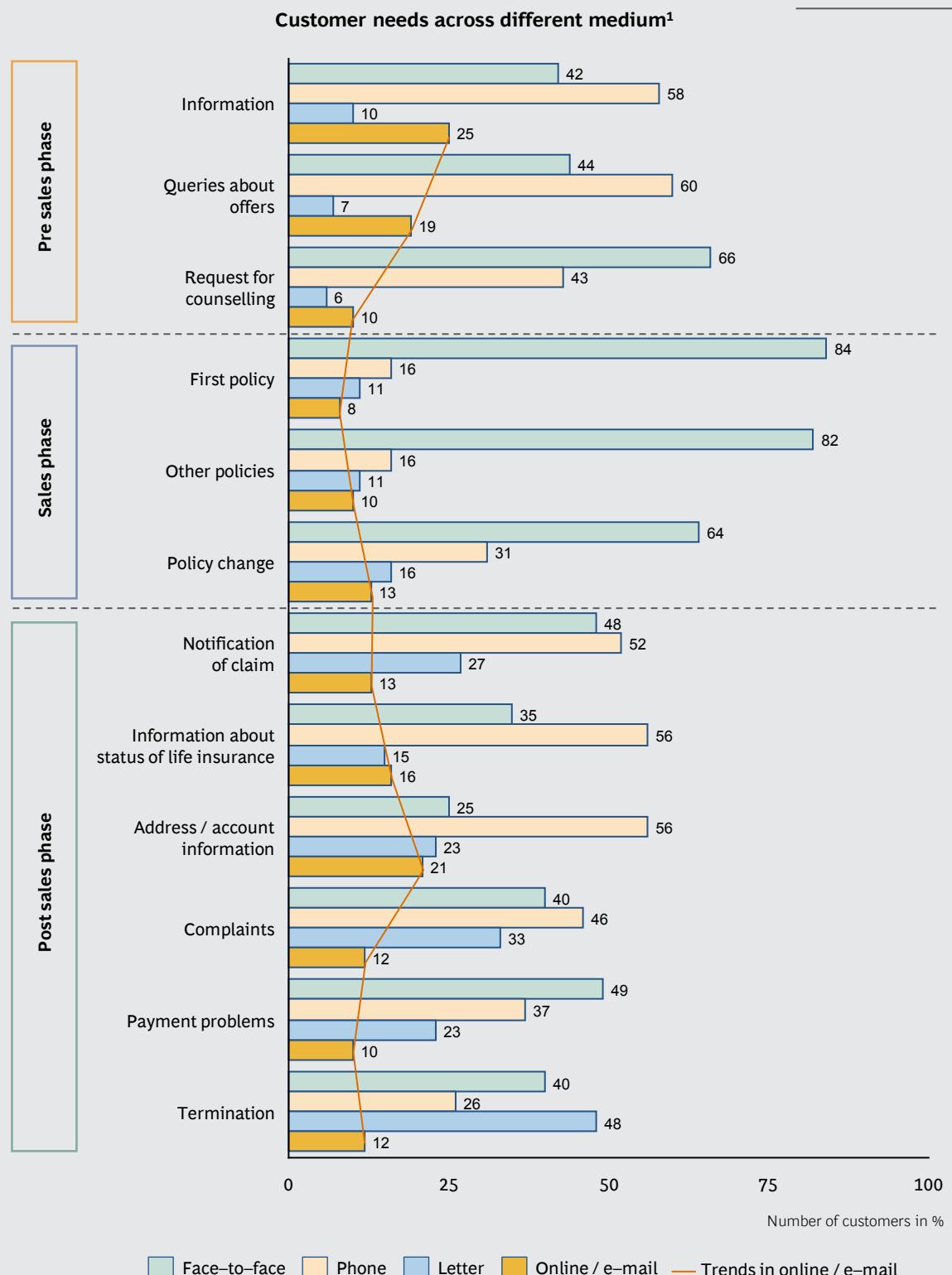
In addition, the latest digital media—online forums, company and consumer blogs and social media sites have become key influencers (as shown in Exhibit 4.5).

In the light of this new virtual reality, to continue to effectively reach customers on their media of choice, companies will need to pursue a three-pronged agenda:

1. Define the target customer set and formulate a value proposition to capture and develop this target (innovation, product portfolio and brand key messages).
2. Infuse client view in the implementation: from conception and communication, to commercialization and policy management.
3. Become multichannel adaptive in communication: Provide multichannel consistency in offers and prices, and design multi-

## EXHIBIT 4.2 | Multi Access Services a Reality

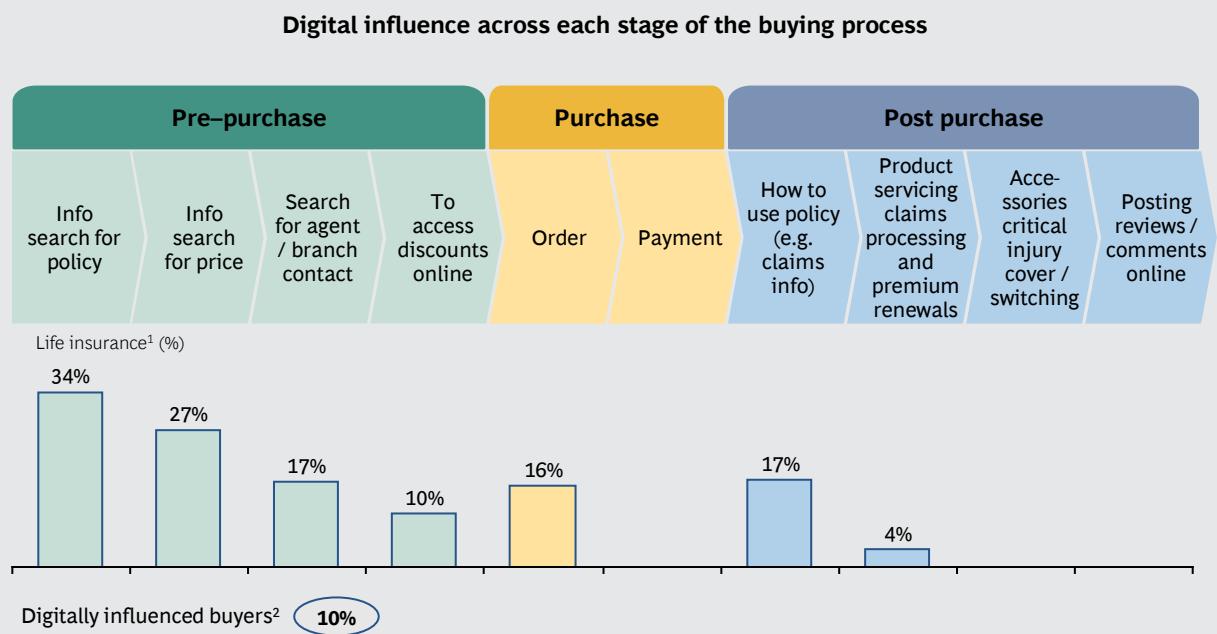
Example: Germany



Source: Psychonomics; BCG analysis

<sup>1</sup>Most frequent mentions

### EXHIBIT 4.3 | Digital can be Used as a Platform for Multi-access Services at Various Stages of the Customer Life-cycle



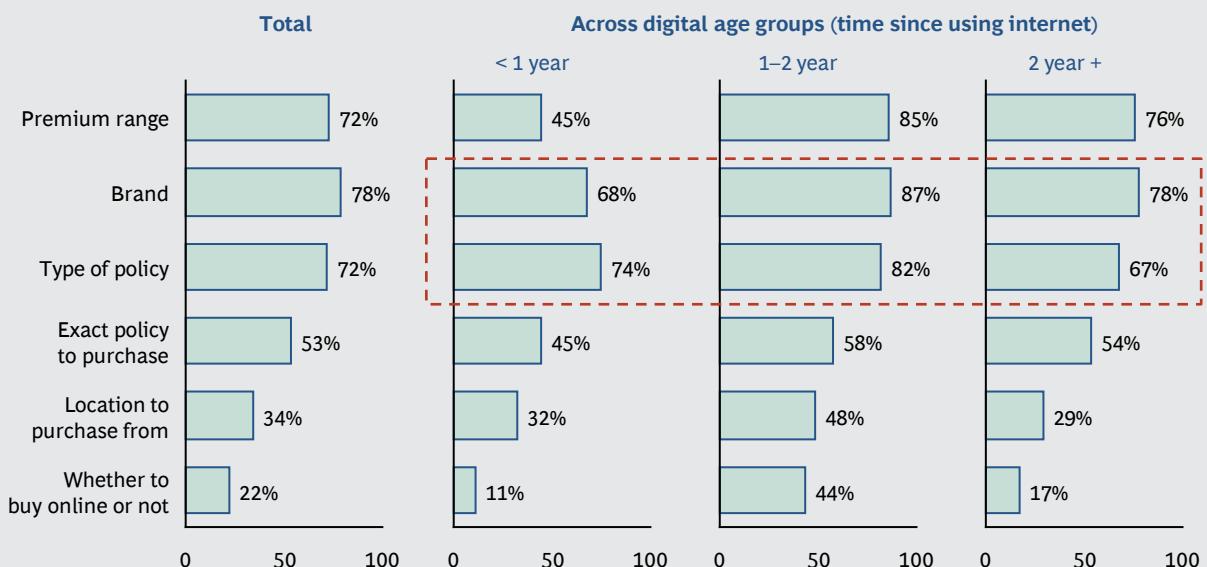
Source: BCG CCCI India Digital Influence Study 2012.

<sup>1</sup>Respondents who purchased only life insurance and influenced by digital, stage wise influence including need identification (N=247).

<sup>2</sup>Percentage of respondents influenced by digital across all stages of the purchase process.

### EXHIBIT 4.4 | Majority of Online Insurance Buyers Decide the Brand and Type of their Policy on the Basis of Internet Research.

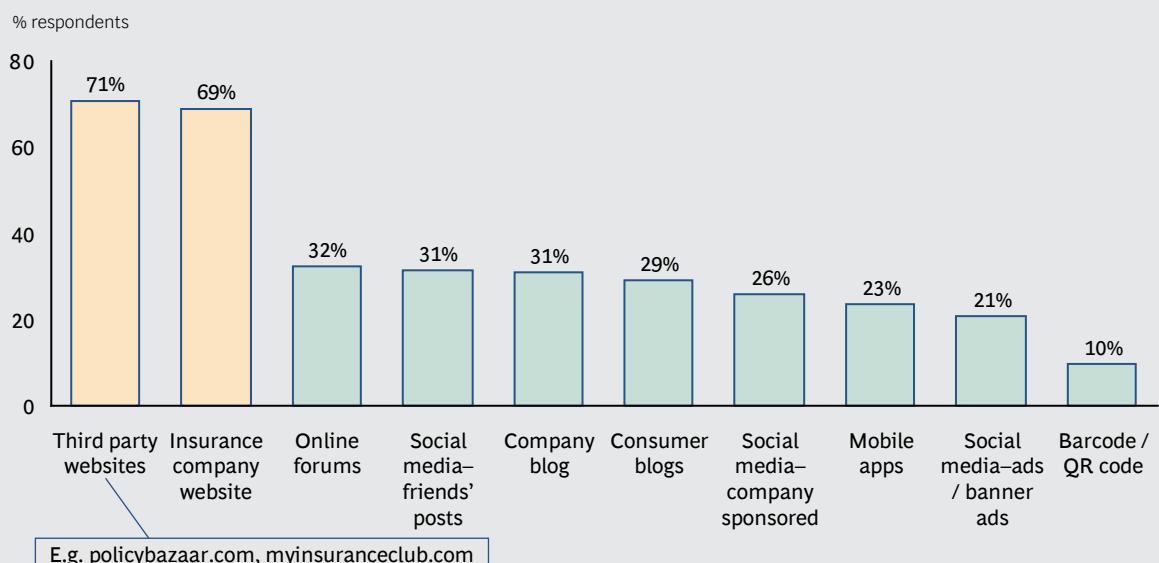
**“What all did you decide on basis of what you saw / read on the internet?”**



Source: BCG CCCI India Digital Influence Study 2012 | Life Insurance (N=265)

## EXHIBIT 4.5 | Digital Media (Online Forum, Blogs and Social Media) a Key Influencer

**Which of these portals did you use to access information or take decisions?**



**Source:** BCG CCCI India Digital Influence Study 2013.

**Note:** For respondents across any stage of the purchase cycle.

channel client path. This will be particularly important as customers who are active online, tend to access multiple sources of information and not just the insurance company websites.

### A CORE PART OF THEIR OPERATING MODEL

While the primary direction of changes driven by the new digital technologies and media will be customer facing, this digital wave also provides significant opportunities for optimizing the operating model of insurance companies. There are several aspects of the operating model that will need to be adapted to achieve this optimization:

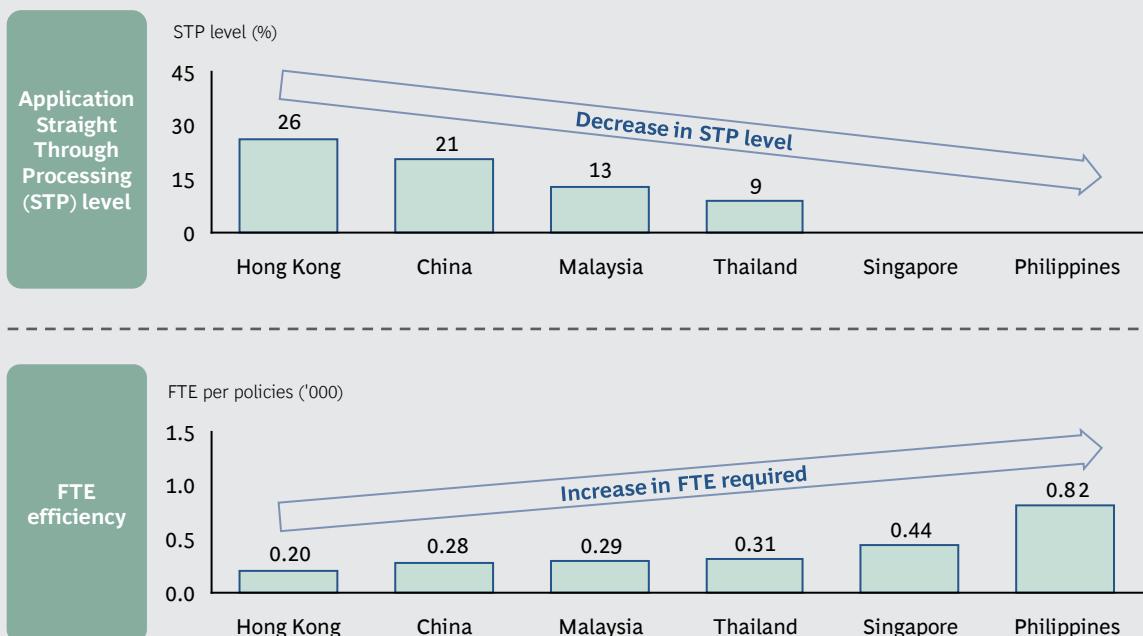
**Defining a new target digital operating model:** The changes in the target operating model will need to start with insurer's process design. Process design should be customer-centric, and provide customers full transparency and control. The process needs to be built by tracking customer usage patterns, and should provide tailored access to a given user's most-used functions. Self-service processes, for instance for updating

policy details, fetching renewal details, should also be included in the process design.

**Automation and digital processing:** Digitization and automation of insurance processes is an activity that can yield significant process cost and customer service benefits to companies. BCG benchmarking in South East Asia revealed significant potential for reduction of turnaround times with regard to processing of policy applications by up to 208 days. The study also uncovered scope for insurers to reduce their operating costs relating to policy processing by almost 67 percent. In the same study at the country level as well, there was a clear correlation between the level of straight through processing (percentage of transactions) in a country and the number of full-time employees (FTE) required (as shown in Exhibit 4.6).

Countries with straight though processing are more cost efficient. The more the STP, the lower the FTE requirements (as shown in Exhibit 4.6).

## EXHIBIT 4.6 | Countries with Straight Through Processing are More Efficient



Source: BCG IBIO.

**Dematerialization of documents:** Dematerialization and digitization of policy and related documents is a key enabler for the insurance industry to adopt digital processing. The Indian insurance industry has already prepared itself for this move. It is expected to bring cost savings to insurers and significant customer benefits. Workflow automation and straight through processing will also be enabled by having this base platform.

**Data mining and analytics:** As a first step towards data mining, life insurers need to proactively think through their data requirements, including improved risk identification, real-time customer feedback through different platforms, etc. The appropriate analytics and data set-up should then be reconfigured to ensure that specific data sets can be identified and rigorously captured. In order to prevent data loss, companies should carry out system checks in a systematic manner.

**Robust IT infrastructure:** Insurers need to be move to a digital-enabled IT architecture to

support operations. Firms should develop IT systems and methodologies that allow for a consistent view of the customer, enable deep analytics and use of “big data”, and provide the flexibility and agility to roll out new services and experiences quickly.

A significant element of insurers being able to create a robust IT infrastructure will be their ability to leverage middleware / patchwork solutions in the interim, prior to them changing the core legacy systems.

Moreover, companies should assign greater priority to creating a framework to rationalize investment spends. A company investing in digital technology is always in danger of undertaking a multitude of IT projects relating to social media, mobile, etc. in different silos, without having an overarching strategy for such spends. The governance model must foster ways in which digital development can be coordinated and prioritized across the business, and promote investments in technology platforms that can be reused and leveraged for multiple purposes.

**Digital reflexes within the organization:** Life insurers will have to adapt their organizational structure, as well as change their working culture, in order for their digital strategies to be sustainable. Instilling the right reflexes requires:

- ***Building up the right expertise:*** Identifying and developing new requisite skills, deciding on the right internal and external talent balance and robust training programs.
- ***Creating a center of excellence:*** Bundling of key digital functions into a coordinated digital center of excellence, while decentralizing execution and content creation.
- ***Defining the governance model:*** Determining decision making rights and instituting a process that enables cross-team participation, while integrating digital into the day-to-day business.

- ***Fashioning a culture of learning by experimentation:*** Making best practices readily available, fostering and rewarding experimentation.

NOTE:

1. EIU, US Census Bureau for Population, BCG analysis.
2. TRAI.
3. IMRB, Press reports, BCG analysis.
4. EIU, BCG estimates.
5. Country information, BCG estimates.
6. Press reports.
7. Press reports.

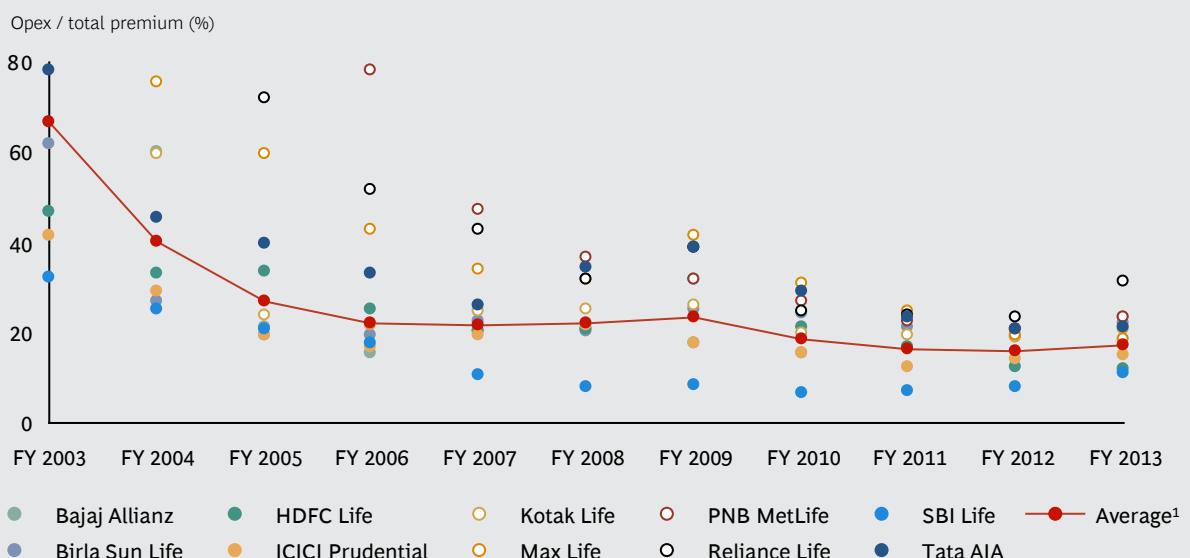
# RETHINK COST STRUCTURE FROM SCRATCH—HALVE COST RATIOS

**A**MONG THE VARIOUS CHALLENGES facing the life insurance industry, the area that has received probably the highest attention of the sector over the past five years has been the large operating cost base. Life insurers have taken steady measures to reduce their cost base over the past few years. As illus-

trated in Exhibit 5.1, the ratio of operating expenditure to total premium has declined steadily for most of the sector's ten leading private players over the last decade. After flattening out at nearly 25 to 26 percent from FY 2006–09, renewed efforts post have taken the ratio to nearly 18 percent in FY 2013.

## EXHIBIT 5.1 | Continuous Gradual Decline in Opex Ratios

Opex to total premium ratios of top 10 players (FY2003-13)



**Sources:** IRDA annual reports, company disclosures, BCG analysis.

**Note:** Top players taken on the basis of Total Premium as on FY 2013, extreme ratios of above 80% during the initial couple of years of some of the companies have not been shown on the graph.

<sup>1</sup>The average operating expense to total premium ratio for the top 10 life insurers weighted by their respective premium.

## Insurers' Reactions to the Cost Challenge

The industry has been awake to the need and has taken set of actions to achieve their current levels of operating expenses. These include:

**Rationalization of the sales force:** Insurers have implemented bold steps to rationalize the agency sales force in a significant manner. The number of agents deployed by private life insurers has fallen by nearly 500,000 over the past five years, from a peak of 1.5 million<sup>1</sup> in FY 2009 to about 1 million<sup>1</sup> in FY 2013. In addition, there has been a downsizing of the corresponding sales pyramid above the agency force.

**Rationalization of infrastructure costs:** Companies have also undertaken major initiatives to manage their infrastructure costs. The number of branches operated by private life insurers has declined, from a peak of nearly 8,800 in FY 2009 to almost 6,700<sup>2</sup> today. Moreover, the formats of branches have been simplified to manage overheads.

**Changes in operating model:** Several life insurers have adapted their operating models. Initiatives taken in this regard include centralization of select processes and outsourcing of workflow previously considered unsuitable for outsourcing. As an example, several life insurance companies have outsourced policy issuance and servicing operations to outsourcing service providers. Such selective outsourcing allows insurers to avoid putting up fixed cost bases, and achieve operating efficiencies.

## Significant Attention Still Required

Private life insurers in India have achieved a lot over the past five years, as far as rationalizing their cost bases is concerned. However, the scale of efficiencies realized as a consequence of the industry's multiple initiatives is not sufficient to take the sector to the path of sustainable growth. Looking at global benchmarks, both at the level of countries as well as individual companies, it is clear that the Indian life insurance sector has a lot of scope for improvement—in terms of reducing the key ratio of opex to total premium (as shown in Exhibit 5.2).

The opex-to-total premium ratio for Indian life insurance companies, barring LIC, ranges from 12 percent to 20 percent, compared to the single-digit ratio enjoyed by global benchmarks. Clearly, the target for India's life insurance industry has to be to match up to international standards on cost efficiency. This means halving the cost ratios.

## The Action Agenda on Cost

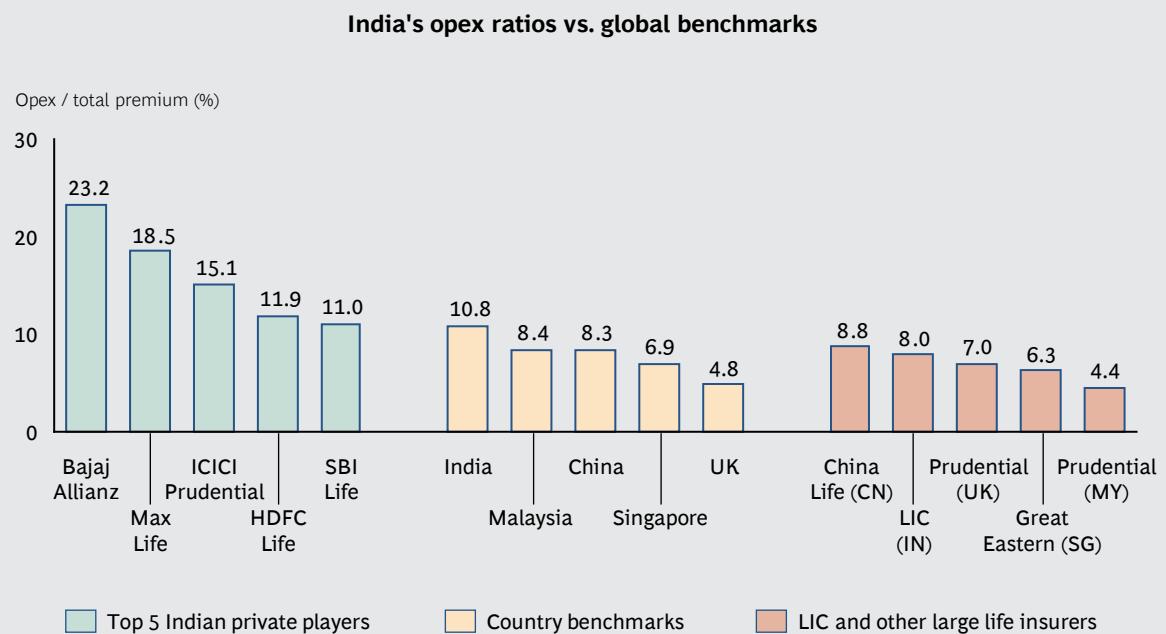
The task of improving cost ratios is not an incremental one. BCG believes that achieving a single digit opex-to-premium ratio requires a break from the business-as-usual approach. To make this shift, the life insurance industry will need to act on three main levers (as shown in Exhibit 5.3).

**Double productivity:** The agenda for productivity improvement is largely applicable to the sales force. The problems associated with this and the prospective solutions, have already been discussed in the previous chapters. Essentially, companies will need to create radically different agency models, in order to improve the overall productivity levels.

**Operating model overhaul:** The operating model of life insurance companies can be overhauled by looking at each process through five dimensions, each of which entail choices that can lead to more or less industrialized—and efficient—operating models.

First, life insurers need to figure out which of their processes will be dependent on human skills and which can be automated. Second, the degree of centralization of the processes will have to be decided. Third, the type of customer interaction required for client-facing processes, for example, self-service oriented (digital), or face-to-face interaction, will have to be defined. Fourth, the degree of outsourcing of processes needs to be decided. As mentioned earlier, the capability of several organized players to efficiently take over several typical processes of an insurer has grown significantly in India over the past five years. Finally, insurers will have to decide on the extent of customization allowed in their operating models for different customer needs and channel requirements.

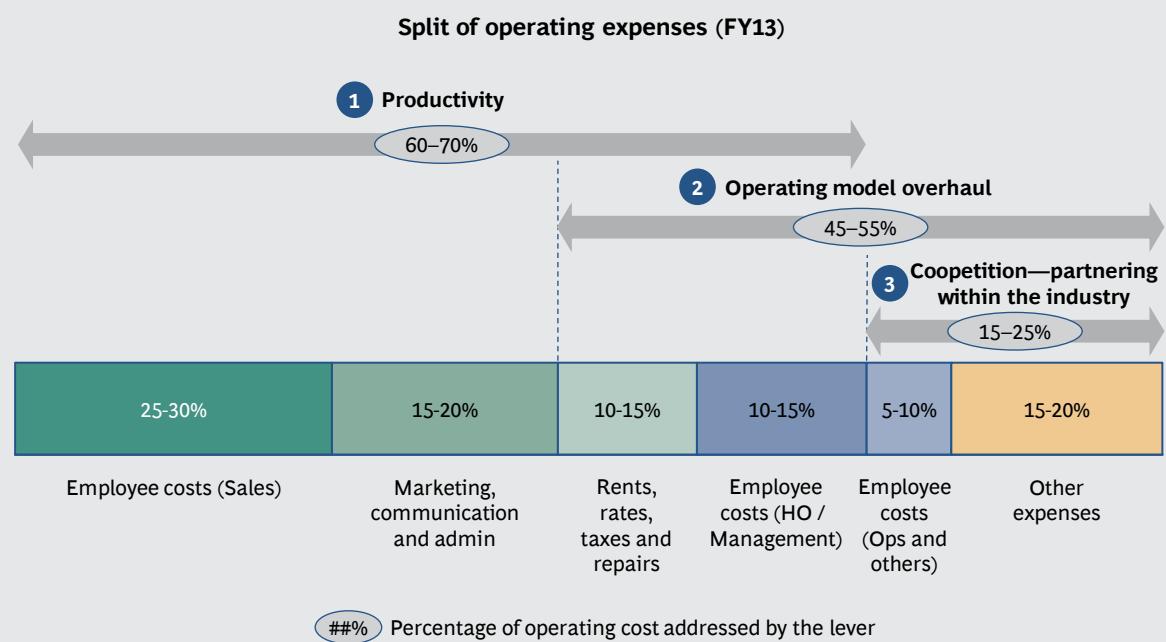
## EXHIBIT 5.2 | Indian Insurers Need to Halve Opex Cost Ratio



**Note:** Top 5 private players based on FY 2013 total premium. Opex ratios for Indian companies based on FY 2013 data, China and China opex ratio is based on 2011 data, all other countries and other international players based on 2012 data. Prudential UK is Prudential Assurance Co Ltd (The), Prudential MY is Prudential Assurance Malaysia Berhad.

**Source:** IRDA, Public disclosures, Axa, ISIS, BNM Malaysia, Monetary Authority of Singapore, Synthesys Life FSA returns, China Insurance yearbook.

## EXHIBIT 5.3 | Three Distinct Levers Address Operating Costs



**Source:** Public disclosures FY13; BCG analysis.

**Note:** Operating cost expenditures based on Top 10 private insurers by overall operating expenses. Taxes and duties excluded from split.

<sup>1</sup>Employee costs—Employees' remuneration & welfare benefits + Training expenses. Split of Employee Costs into Sales, HO / management and Ops / others basis industry experience

<sup>2</sup>Advertisement and publicity + Communication expenses + Expenses under Others section of the public disclosure which indicate administration costs or marketing expenses.

Choices with regard to each of these five dimensions will have a strong bearing on the levels of efficiency the insurers achieve in their operating models.

*Drive coopetition / partnering within the industry:* In an industry with as high a competitive intensity as life insurance, it may be out of place to talk about cooperation among competitors. However, BCG believes that life insurers in India can learn significantly from other industries in the country that have leveraged the power of scale within their respective sectors to optimize their operations—while continuing to focus on their core value proposition and competing in the market place. For instance, the telecom industry has progressed significantly, with a near complete sharing of physical infrastructure (towers and base stations) achieved by spinning off such assets into independent tower companies. The banking sector has collaborated on creating a common database of credit histories of customers, thus allowing system-wide efficiencies to accrue. A result of this is that retail NPAs have reduced substantially over the past couple of years.

Indian life insurers have already taken one step down this path of cooperation, with the move to allow dematerialization of policies—an initiative that could underscore the potential for significantly reducing the need for independent KYC verifications by each company.

Several of these examples of cooperation have either been driven by dire necessity (telecom) or by regulation (banking and insurance). The key question is whether life insurance companies in India can adopt a similar approach out of their own volition, without being pushed to do so.

Some of the potential areas for cooperation include, sharing of information on agent quality (frauds / mis-selling complaints), establishment of shared service centres for agent skilling and processing, etc.

**O**VERALL, the agenda on cost is complex. BCG believes that there is no single silver bullet to be able to drive a halving of the cost ratios. Companies will need to act on multiple dimensions to make it count.

NOTE:

1. IRDA website
2. IRDA annual report

# CREATE A WINNING ORGANIZATION

THE LIFE INSURANCE INDUSTRY in India has undergone a significant evolution over the previous decade. During the growth years FY 2003–FY 2008, the sector hired the best talent for sales, operations, marketing and other roles from a wide spectrum of industries including banking, manufacturing, IT services, FMCG and white goods. Life insurance was truly a sunrise sector, enjoying consistent ratings as being one of the most attractive job markets.

The core human resource challenges during this phase were assimilating different talent pools, sourced from diverse professional backgrounds and industries, into the organization, and building an ability to create and retain a firm-wide culture. This period also saw very high levels of voluntary attrition, especially in sales; given the growth opportunities (refer to Exhibit 6.1). Consequently, the HR challenges were focused around talent hiring in a competitive market, retention of top performers and fast-track skill development of people.

The contrasting business cycles recorded by the life insurance industry, between FY 2003 to FY 2008 and FY 2008 to FY 2013, have had a major impact on the leadership and talent pipeline for the sector, creating a new set of challenges for managements to cope with over the next few years.

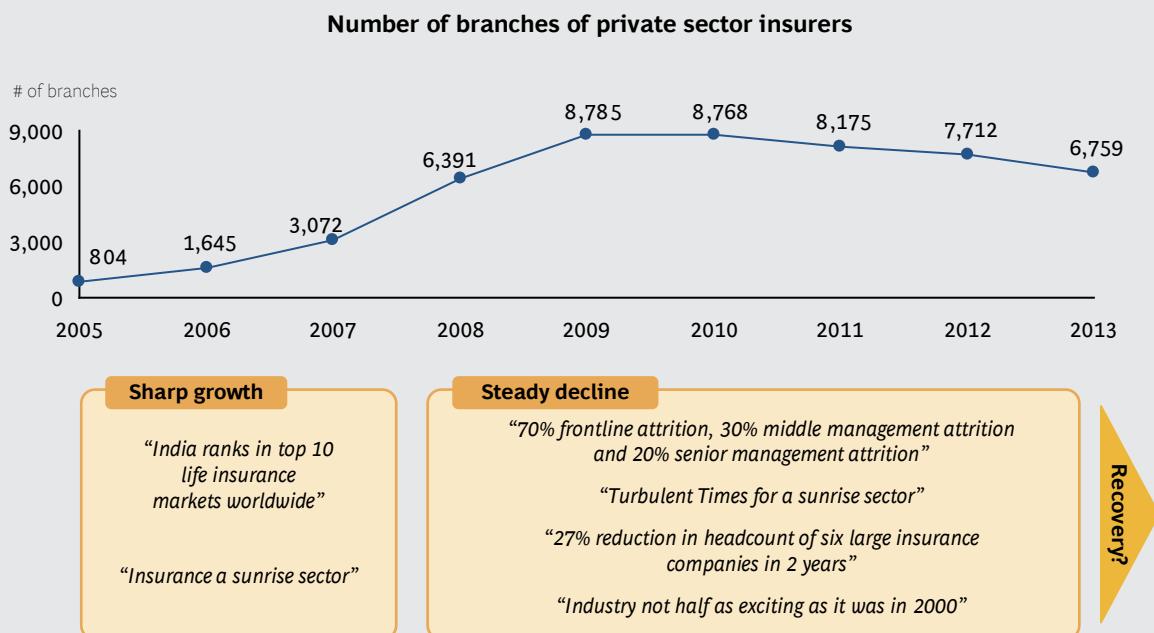
As the industry has endured a slowdown, the hiring drives and organizational sizes have undergone a massive change (as shown in to Exhibit 6.1). Life insurance is no longer perceived to be one of the most preferred sectors with the promise of a lucrative career—either for fresh graduates, or for middle- to senior-level executives looking for a new challenge. Given the prospect of continued muted growth over the next few years, the industry also has a motivational challenge at hand.

The relative standing of life insurance as a career in the general public's perception has also taken a beating with a lot of the negativity associated with the recent problems of mis-selling. Finally, with firms taking measures to align their cost bases with the new business reality, involuntary attrition has spiked.

The other big internal challenge insurers have to deal with is a transition in culture, from the heady early years of rapid growth and focus on market share to a more profitability conscious environment.

At this stage, the challenge for insurers is at both ends of the pyramid. First, there is an urgent need to develop and retain leadership talent for the industry. Life insurance firms, now have a lot of “insurance experienced” talent. This will be a blessing, but insurers need to retain the key talent and mo-

## EXHIBIT 6.1 | Insurance Sector Attractiveness for Jobseekers has seen a Decline Since FY 2010



Sources: IRDA; Press reports; BCG analysis.

tivate them. Second, companies need to create an efficient sales army. Given the large scale of attrition in the sales pyramid, the extent of replacement hiring and additional hiring required for growth make it a formidable task.

### Agenda for the Industry

Looking ahead, BCG proposes a five-pronged “people and leadership agenda” for life insurance firms in India.

#### CREATE APPROPRIATE SALES MANAGEMENT PYRAMIDS

In spite of having undertaken large cost-cutting initiatives in recent years, life insurers continue to allow themselves the luxury of deep management pyramids and excessive layers. This phenomenon is best illustrated through the classical agency pyramid. Across the sector, it is rather common to find the presence of six to seven layers between the agent and the distribution head (sales manager, senior sales manager, branch manager, area manager, regional manager, and agency head). Given the recent decline in the num-

ber of agents, as well as in productivity levels, this setup cannot continue.

In fact, firms should design a new pyramid spanning only three to four layers that can easily handle between 10,000 and 20,000 productive agents per month. Given that many large agency forces are struggling at less than 5,000 productive agents per month, a simplification of the organizational structure has to be a top priority for firms throughout the industry. A structured approach to this issue is, therefore, critical.

However, a flatter and well-structured organization does not necessarily translate into a faster or better organization. A lean organizational structure needs to be complemented by the progressive thought and direction of leadership, as well by a spirit of cooperation across the enterprise.

#### REJUVENATE THE INDUSTRY BRAND AND BRUSH UP THE EMPLOYEE PROPOSITION

In a hiring market where potential employees do not consider insurance to be the most attractive sector, industry players need to go

the extra mile in rejuvenating their talent acquisition and development approach. Companies will have to craft ingenious and attractive employee value proposition packages to stand out and compete with the sectors more in demand.

The value proposition of life insurance companies, from a hiring standpoint, would need to encompass, amongst other things, fast-track career growth, diversity of managerial experiences (through rotations), world-class training, and an attractive work culture.

Firms would need to find a way of communicating this proposition to prospective employees, as well as of delivering on the promise. In today's digitally connected world, false promises can leave a long lasting trail of dissatisfaction.

#### **BUILD THE FUTURE READY ORGANIZATION**

Insurers also need to start looking at adapting their organizations, including acquiring and nurturing new capabilities in the context of the changing business landscape, especially with respect to digital technologies. These could range from encouraging more people who are native to digital technology to join them to ride the technology wave to learn from the experiences of other sectors.

Emerging business realities like digital technologies will require talent equipped with new capabilities (mixture of business and technology appreciation), as well as a different mindset (massive collaboration across organizational units). Firms would also need a managerial pool that is willing to challenge existing mindsets, and is open to radical ideas from outside or within the organization.

As the life insurance business gets more consumer driven, responsiveness will become a critical differentiating factor. Life insurers will need to devise mechanisms that enable and empower managers at customer interfaces to demonstrate responsiveness in moments of truth.

Finally, as the Indian economy eventually returns to its trend line of growth over the past two decades, the life insurance sector will face several challenges in attracting and re-

taining the best talent. Firms need to think proactively on how to create mechanisms to build and manage talent pipelines across critical functions.

#### **DRIVE LEADERSHIP DEVELOPMENT PROGRAMS**

Leadership teams within each company will need to collaborate and complement each other more than ever before. Constantly competing and complementing each other for talent, revenues, products, investments, they might, in some cases, even have to be willing to cannibalize each other for the sake of greater good (for example, new products / channels). This will require extremely high levels of trust, and senior management need to imbibe and live by these collaborative values in front of their teams.

In times of great uncertainty, adaptive teams that can shift tactical gears under a consistent strategic framework fast enough will succeed more. Insurers will need to ensure that their leadership teams are ready and adaptive enough to manage these changes.

#### **CREATE CUSTOMER CENTRIC CULTURE AND WINNING MINDSET**

Private life insurers in India have accumulated a lot of cultural baggage from the growth years. To get back on the growth path, it is appropriate for insurers to create the right, customer centric mindset in the organization.

The intent has to be to transmit this refined culture right down to the last field manager, agent and service representative, so that customers actually see and experience the cultural shift. Life insurers have to start this process with an incisive, inward diagnosis, and make explicit choices on the kind of culture they want to achieve.

# FOR FURTHER READING

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An article by The Boston Consulting Group, October 2013

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A report by The Boston Consulting Group in association with The Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Bank's Association (IBA), August 2013

## **Global Asset Management 2013: Capitalizing on the Recovery**

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## **From Buzz to Bucks—Capitalizing on India's "Digitally Influenced" Consumers**

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## **Transformation Amid Tough Times in the Insurance Industry**

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## **Digital Insurance—Charting a Course to Best-in-Class Capabilities**

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## **India Insurance—Turning 10, Going on 20**

A report by The Boston Consulting Group in association with The Federation of Indian Chambers of Commerce and Industry (FICCI), April 2011

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