

CAPCO

INDIA'S LIFE INSURANCE MARKET RIDING THE TIDE OF OPPORTUNITY



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INTRODUCTION

With rising incomes, tech-savvy consumers and an increased awareness of the need for financial security, India offers innumerable opportunities for life insurers. Technological disruption and new regulations are opening opportunities for enhanced digitalization and greater financial inclusion, and for creating a frictionless customer journey through simplifying insurer processes such as underwriting and claims management. Navigating this fast-evolving landscape will require strategic agility and a willingness to embrace change.

In this paper, we provide a comprehensive overview of the Indian life insurance market as it heads towards a significantly higher growth trajectory. We explore the key challenges facing life insurers, including improving customer engagement, evolving distribution channels, and building business model sustainability.

We also offer recommendations on strategic, tactical, and technical fronts to help life insurers unlock growth, drive change, and take advantage of emerging opportunities while effectively mitigating potential risks.



I. THE TIDE OF OPPORTUNITY

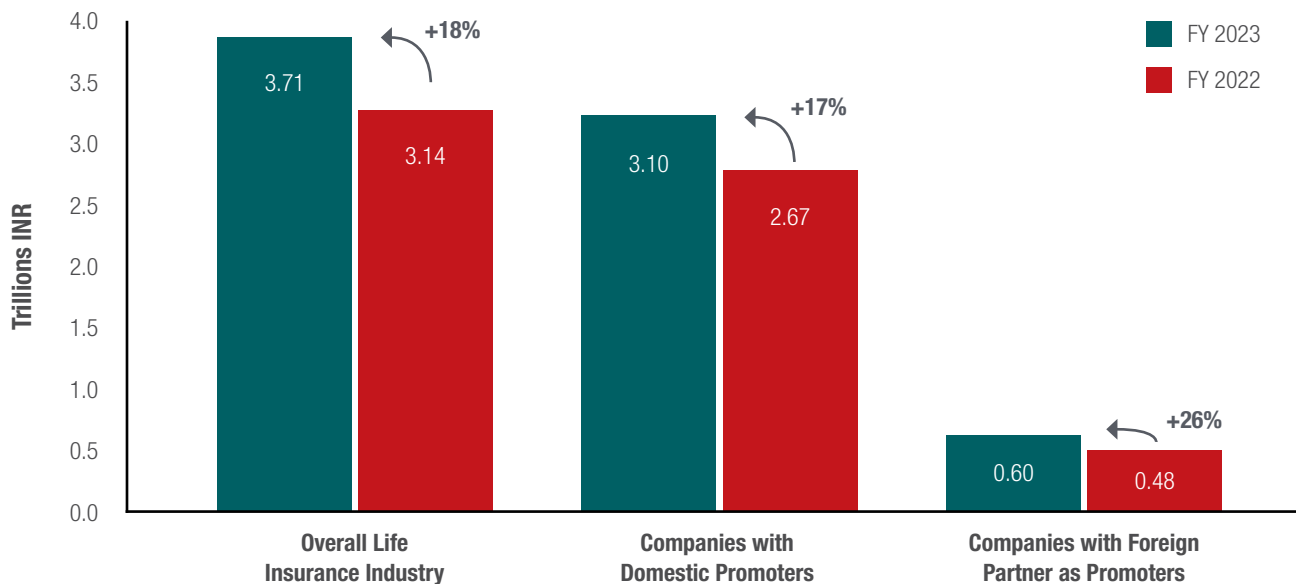
In the two decades since the landmark incorporation in 2000 of the Insurance and Regulatory Authority (IRDA) to regulate, promote and protect the Indian insurance industry, and the subsequent (limited) opening up of the market to foreign insurers, the industry has undergone a transformation: increased penetration, expanded coverage of life and property, more customer-friendly products, a rapid growth of multiple channels (bancassurance, agency, broking, direct, corporate agency, etc.), enhanced reach, and increasing competitiveness.

As noted, this transformation has been in part fueled by the strategic entry of foreign promoters, who have injected

much-needed growth capital and technical expertise. This has played a key role in driving the transformation of the Indian life insurance sector, which today is characterized by surging customer awareness of the importance of protection products, disruptive innovation, and regulatory tailwinds.

Over the past decade, the life insurance market has recorded a compound annual growth rate (CAGR) of 10.5%, with total premiums reaching INR 7.83 trillion in the financial year 2022-23,¹ up from INR 2.87 trillion in 2012-13.² India's life insurance industry weathered global storms to record 18% growth in new business premium income for FY2022-23.

New Business Premium Growth (Year on Year Including Group Business)



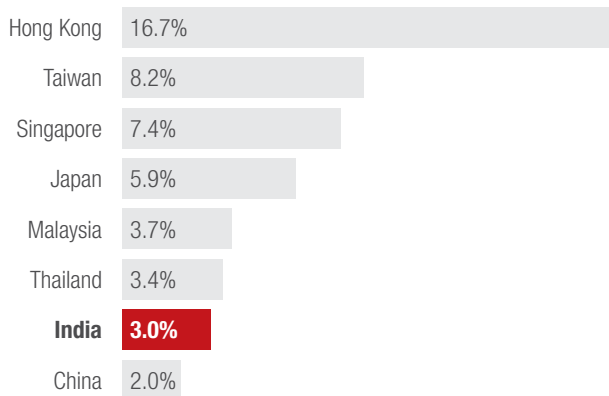
Source: New Business Performance Report, Life Insurance Council, 2023³

India's insurance market is among the fastest-growing in the world and its life market is expected to become the fifth-largest such market by 2032.⁴

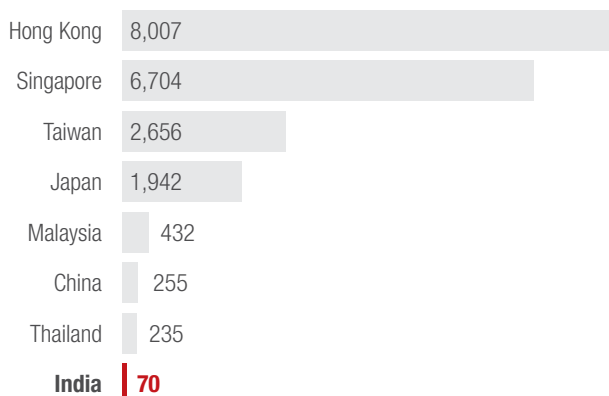
In part, these growth expectations are related to India's immense protection gap. While India's economic progress has been significant, the key development indicators of the insurance sector – notably insurance penetration and density – trail the country's counterparts in the APAC region. (Insurance penetration measures premium volume as a percentage of GDP; insurance density is defined as the ratio of total premium to the total population.)

Life Insurance Penetration & Life Insurance Density

Life Insurance Penetration* (FY 2021-22)



Life Insurance Density US\$** (FY 2021-22)



* Penetration as measured by premiums as % of GDP.

** Density defined as ratio of premium underwritten in a given year to the total population.

Source: Swiss Re Report sigma 3/2023⁵

The disparity between India and other developed economies within the APAC region underscores both the size of the protection gap and the vast potential for expansion – especially for private insurance players.

Macroeconomic factors, such as GDP growth rate, rising per capita income, and increasing urbanization, coupled with increasing post-pandemic awareness of the need for life insurance, are working alongside digitalization to further the growth of the Indian life insurance sector.

Despite its impressive growth and growth potential, the industry faces several challenges, including increasing competition, changing customer needs and expectations, and the emergence of disruptive technologies. To stay relevant and competitive, life insurers must transform their businesses across strategic, tactical, and technological fronts.

Reimagine distribution – Leverage superior analytics to optimize channels, prioritize virtual onboarding, and forge strategic partnerships to reach untapped markets.

Elevate the consumer experience – Design hyper-customized services, embrace omnichannel delivery, and foster emotional connections to establish lasting loyalty.

Sharpen operational performance – Automate workflows, incorporate AI-powered solutions, and cultivate a data-driven mentality to reduce costs and enhance agility.

Insurers ignore these imperatives at their peril. Hyper-personalization powered by modern data analytics and generative AI is no longer a distant dream, and fintech/insurtech players are already rewriting the rules of engagement.

Failure to evolve and take advantage of the key trends reshaping the industry will leave insurers vulnerable to competitors better able to surf the coming wave of innovation.

II. TRENDS RESHAPING INDIA'S LIFE INSURANCE INDUSTRY

1. Increased awareness of protection products in the post-pandemic era

According to SwissRe,⁴ the average mortality protection gap in India currently stands at 91%, meaning that most households have only a tiny fraction of the financial resources necessary to make up for the death of a breadwinner. This gap is largely due to the historic prevalence of savings-linked life insurance products, with a minimal focus on protection coverage.

However, the COVID pandemic highlighted the importance of protection products and has led to a surge in consumer awareness regarding the need for life insurance. Coupled with an increase in disposable income, this raised awareness and improved knowledge about insurance products are continuing to help increase penetration levels.

The expansion of insurance coverage well beyond the traditional urban, salaried segments in the major cities presents significant growth potential for India's life insurance market. This broader market reach, coupled with pandemic-induced awareness, is expected to drive a notable increase in insurance purchases, particularly among non-metropolitan consumers.⁶

2. Insurtech/fintech disruption focusing on seamless customer experience

India's fintech/insurtech sector is playing a key role in reshaping the life insurance industry by leveraging technology to make buying insurance products more accessible, affordable, and convenient for consumers. The trend is towards integrated platforms that offer a compelling and seamless customer journey and a more comprehensive ownership experience.

Notable success stories include:

- **PolicyBazaar** – a web aggregator that provides an online insurance marketplace to help millions of Indian consumers compare and buy insurance products from different insurance companies.
- **Digit Insurance** – a digital-first life insurer that uses technology to streamline its operations and provide

customers with a seamless and simplified experience.

- **Turtlemint** – provides a digital insurance platform that simplifies product selection and streamlines the customer journey to empower financial advisors to reach underserved customers and provide them with affordable insurance coverage.
- **RenewBuy** – an online insurance distribution platform which leverages technology, mobile app and a network of insurance advisors to increase the adoption of insurance products and services.

3. Hyper-personalization leverages Big Data analytics/Gen AI

The Indian life insurance market is at the start of a remarkable transformation, as insights and intelligence about customers begin to permeate every aspect of the value chain. From lead generation, empowering sales agents to sell the right products to customers, and underwriting decisions, to policy issuance, cross-selling, up-selling, and claims processing, the focus is increasingly on delivering tailored solutions and a highly personalized customer experience.⁷

The desire for a rapid, seamless experience across all touchpoints and interactions is particularly pronounced among millennials. Data-driven hyper-personalization equips insurers with the ability to engage with customers in real-time, providing timely and contextual suggestions and experiences based on factors such as location, time, and behavior.

Insurers will increasingly need to analyze vast amounts of data at scale, facilitating effective risk management and simplifying customer interactions through intelligent, streamlined application workflows that leverage the power of Generative AI and machine learning.

By embracing hyper-personalization, insurers can meet evolving customer expectations while also unlocking the potential for enhanced risk management, improved customer

engagement, and simplified processes. This trend represents a significant opportunity for the Indian life insurance industry to harness advanced data analytics and AI/ML capabilities to foster the deeper customer connections that drive sustainable growth.

4. Supportive regulatory stance

The Indian government has taken significant steps to support the growth of the insurance sector by raising the Foreign Direct Investment (FDI) limits from 49% to 74%.⁸ This move is enabling insurers to attract additional growth capital that can foster expansion and innovation within the industry.

Furthermore, the regulatory body is actively considering the implementation of risk-based capital (RBC)⁹ requirements in alignment with the Solvency II regime, aiming to enhance the financial stability of insurers.

The regulator's proactive approach is evident through its recent efforts to amend the regulatory sandbox framework,¹⁰ which provides insurers with a testing ground for innovations. These amendments are expected to create more opportunities for insurers to enhance distribution and drive market penetration, offer improved and seamless customer experiences through digitalization, and foster innovation across the value chain.



III. KEY ACTIONS

To navigate the evolving landscape, life insurers in India need to take assertive and transformative actions across strategic and operational aspects of their business.

In terms of distribution management, a shift towards a channel-driven approach, such as the bancassurance and direct distribution operating models, has gained prominence. Enhancing customer experiences through seamless digital onboarding and personalized interactions will be pivotal to attracting and retaining customers.

Moreover, leveraging analytics to understand customer behavior is crucial for building long-term relationships and successfully conserving a customer's business.

Revamped operating models – building blocks

India's insurers need to address the key challenges head-on by setting out a strategic blueprint for improved operating and business models. Getting this right will require a meticulous approach to aligning the business using Key Performance Indicators to track aspects such as dynamic expense management, and nuanced market segmentation.

Aligning Key Business Aspects

ASPECT	BANCASSURANCE	AGENCY & DIRECT
BUSINESS HIGHLIGHT	Showing healthy growth backed by fundamentals over the last few years.	Facing headwinds with New Business % declining from 78% in FY2013-14 to 55% in FY2021-22. Dominated by LIC.
KPI & METRICS	Activation ratio (for bank branches) Productivity (number of policies per active branch) Achievement % YoY growth % Product mix	Manpower capacity % Achievement % YoY growth % Product mix
EXPENSE MANAGEMENT	Key Performance Indicator driven approach to align expenses with business plan	Recalibration of operating model from fixed-cost driven to variable cost aligned with product pricing
MARKET STRATEGIES (1/2) – METRO & URBAN	Focus on branches with high potential, including structured outreach plan for liability customer base of banks	Lifestyle-bundled value propositions with wealth advisory
MARKET STRATEGIES (2/2) – SEMI-URBAN & RURAL	Broad-based consistent point-of-sale activation through identification of under-penetrated markets with high potential ('Blue Ocean Opportunities')	Integrated outreach program focusing on targeted market segmentation, customer awareness, and strategic partnerships to penetrate and capture untapped potential

Scaling up – distribution & business conservation analytics

Scaling up businesses involves making sure they can grow fast while functioning efficiently across several dimensions. This may include empowering the front line, building a profitable product mix, managing customer retention and persistency ratios, improving productivity, and devising a differentiated distribution strategy across new target regions.

An insurer's activities should be driven across these dimensions by well-defined business analytics and product management approaches to make sure that performance remains in line with the business strategy.

Improving scalability, operational robustness, and seamless customer onboarding is often best approached by a comprehensive restructuring of Operations into specialized verticals:

- **New Business and Branch Operations** – responsible for handling new business across retail and group lines of business, and ensuring efficient and streamlined processes.

- **Underwriting & Claims** – focus on efficient underwriting and claims management, enabling prompt decision-making and timely settlements.
- **Financial Operations & Servicing (Fin Ops)** – dedicated to remittances and policy servicing, ensuring smooth financial transactions and exceptional customer service.

Transforming and then monitoring these verticals in the right way will enable the insurer to harness synergies and improve overall operational efficiency.

Increasingly, insurers need to leverage AI-powered digital workflows to facilitate a seamless information flow, enhance data integrity, and deliver superior customer service. This includes real-time tracking of pre-issuance proposals, prompt resolution of customer grievances and queries, and accurate computation of commissions with robust audit trails.

Today's insurers will often need to put in place digital transformation initiatives to elevate the customer onboarding experience, empower execution teams with cutting-edge technology, and ensure operational excellence throughout the customer journey.

Driving Business Strategy using Business Analytics

Frontline Empowerment

Empower sales staff with dynamic dashboards for enhanced business intelligence, revolutionizing Funnel Management System capabilities, unlocking growth.

Risk-Averse Approach

De-risking portfolio with diverse product mix, particularly against interest rate movements e.g., by increasing share of Participatory (PAR) products.

Persistency Management

Ensuring sustainable growth and profitability through enhanced persistency management and proactive measures for policyholder retention.



Geographical Strategy

Execution of differentiated distribution strategy for target regions.

Productivity

Progressive enhancement of productivity.

High-Margin Focus

Profitable & sustainable scale-building through sale of high-margin traditional products.

IV. CONCLUSION

India's life insurance market is on the cusp of transformative growth, driven by factors such as consumer awareness, technological disruption, and regulatory support. The key actions outlined in this white paper offer a roadmap for prospective clients to navigate this evolving landscape.

By embracing technology, enhancing customer experiences, and leveraging analytics, insurers can position themselves for sustained growth and competitiveness. For those that are well prepared, the convergence of global insurance trends and local market dynamics presents a unique opportunity to innovate and flourish in the years to come.

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Capco, a Wipro company, is a global management and technology consultancy specializing in driving transformation in the energy and financial services industries. Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its award-winning Be Yourself At Work culture and diverse talent.

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