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Insurance Marketing – A New Paradigm Shift

Prasanna Kumar N*

Department of Internationals Business Studies, Acharya Nagarjuna University, Guntur- 522510, Andhra Pradesh, India

Introduction

Last one decade of reforms in India have started yielding the results in the Indian economy. The Government's resolve to push the reforms measures further, less bureaucratic hurdles, absence of red tapism, investors' friendly business environment all put together have given tremendous boost to the industries in terms of FDI and investments from FIIs. Though the impact is felt in all the sectors, service sector is the one which is most benefited out of all those reforms and the contribution of service sector to the GDP of the country has grown manifold. New economy organizations are spreading their wings into service industry like banking, financial services, insurance, communication, entertainment, telecom and so on. And no wonder why India is considered to be the most preferred nation in the world for Business Process Outsourcing (BPO). The service industry in India has achieved a phenomenal growth in the recent past and among them, Insurance is one sector, which has witnessed high decibel growth thanks to the investor friendly regulator in the name of Insurance Regulatory Development Authority (IRDA). The growth the market has achieved in terms of 18-20% in life insurance and 15-17% in non-life insurance stands testimony to that. In this scenario, this paper makes an attempt to understand the paradigm shift that taking place in marketing of the insurance products and the strategies adopted by the players in the market [1].

History

Looking back at the history, the ride had not been so smooth to the public sector players like LIC, GIC and its subsidiaries. For a long time, the insurance policies are not bought but sold in the country because of so many odd reasons like low awareness level, aversion towards the products as such, superstitious beliefs and less diversed product portfolio. The monolith in the life insurance sector, Life Insurance Corporation of India had been basking in its past glory and enjoying the monopolistic situation in the market. Even the General Insurers like GIC and its subsidiaries were able to reach the people with very few products out of many products in their kitty offering little or no options to the customers [2]. The rules of the game have started changing with the introduction of reforms towards liberalization and privatization [3-5]. Infact private sector participation in insurance is not new in the Indian context. In 1956, when the Government of India nationalized the business of life insurance, there were 245 private insurance companies operating in the country. And sixteen years later, when the same happened to General insurance, there were 106. But the seeds were sown as far back as 1993, when the Malhotra Committee headed by former Finance Secretary and Ex-RBI Governor R.N.Malhotra was created to recommend the directions the Indian industry should take. By 1994, the Committee was ready with its report.

The salient suggestions included those on the structure of the industry, competition and the necessity and role of a regulator. The Committee also recommended the opening up of the industry to private sector to increase the reach of the insurance products. Essentially Malhotra was laying the foundation for the creation of regulation and the liberalization process. In April 2000, Insurance Regulatory Development Authority (IRDA) came into being as a statutory body to regulate the industry and to keep a hawk's eye on the private players. The mission of IRDA is "to protect the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto". What happened after April 2000 is well known in terms of new entrants in the field, the market growth rate and the achievements of new players with in a short span of two to three years [6].

Review of Literature

Industry -an outlook

Insurance is estimated to be Rs. 400 billion business in India and the gross premium collection is about 2% of GDP growing between 15% and 20% per annum. India also has the highest number of insurance policies in force in the world and the total investible funds with LIC alone are almost 8% of GDP. Yet, more than three-fourth of India's insurable population has no life insurance cover. Considering that only about 65 million out of 250 million people are covered by life insurance, the potential is quite evident. Switzerland is the world's largest per capita insurance spender ($ 4663 per inhabitant), ahead of Japan ($ 4132 per inhabitant) and far ahead of (200% more) North America, and even further ahead of (250% more) Western Europe. In India, the per capita premium is Rs.490, which is less than 1% than the per capita premium collected in developed nations like UK. India has a savings rate of 22% but less than 5%of it is spent on insurance [7].

The General insurance market is about Rs.11000crores and with the expected growth in the Indian economy and new players moving in, the market for general insurance is expected to grow at 18% per annum. Over the last ten years, the compounded average growth rate for the industry works out to more than 15%. The five major categories - fire, marine (hull), engineering, motor (both owner-driven and third party) and workers compensation (clubbed either with engineering or miscellaneous) comprised 62.41% of non-life business in the year 1999-2000 [8].

Players in the market

The untapped potential in terms of potential insurable population in the country has attracted many players to the market. According to IRDA sources, there are 12 private players in the life insurance sector and 9 in case of non-life insurance sector vying for their pie.

***Corresponding author:** N. Prasanna Kumar, Assistant Professor, Department of Internationals Business Studies, Acharya Nagarjuna university, Guntur, Andhra Pradesh - 522510, India, Tel: +91-9985369477; E-mail: npk_anu@yahoo.com

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Homegrown business barons like TATAs, Birlas, Bajaj and ICICI have jumped into the foray joining hands with foreign players as joint ventures. The indigenous knowledge about the Indian consumer behaviour coupled with the expertise of the foreign partners in insurance business has enabled the new entrants making an inroad into the market with roaring success [9]. In addition to the market share, the private insurers are also able to grab the mind share of the upwardly mobile Indian. The list of players in life and non-life insurance is given below in Table 1.

The FDI limit in insurance sector has been capped at 26% with the remaining 74% in the hands of Indian players. The proposal by the Government of India to increase the FDI limit to 49% has met with lukewarm response, as the players are comfortable with the existing norms.

Strategies adopted by the players in the market

Gone were the days when the customers were forced to take up the kind of products whatever coming from LIC's and GIC's stables [10]. But now, the customer has been portrayed as the king and to his delight, the products are redesigned and customized suiting his need taking into account his paying capacity and multiple benefits. To much of his chagrin, he has also got an option of withdrawing his offer within a period of 15 days (free-look period) if he is not satisfied with the policy features.

Let us look at the strategies adopted by the players in the market.

Shift in the product portfolio: Earlier the entire industry was revolving around investment and savings oriented plans. As the interest rates are moving southwards, all the players are deliberately focusing on selling pure risk covers in an effort to capture the new customers. The premium on such products is low as it covers only the risk aspect and does not factor in investments or savings. Even the market leader LIC has withdrawn some of the products, which are positioned, on the assured returns platform. Though the share of the term plans in the product portfolio is quite negligible, the shift towards the term products is already visible. Typically a term plan does not provide anything by way of maturity, unlike moneyback or endowment policies. Globally, close to a third of the policies fall into this category must be an encouraging news to the players. Unit linked products are also gaining momentum in this country. Om Kotak and Birla Sun Life have launched unit linked schemes focusing on equity, debt and gilt edged stocks. These schemes are expected to yield better returns when compared to normal insurance schemes. As the awareness level about these unique products is much lower, the companies resort to educate the customers about the salient features of the products [11].

Value For Money (VFM): The sea change since the sector opened up has been on the way the basic products have been packaged innovatively, often tailor made to provide a bundle of benefits to the customers. This is possible through the introduction of riders, which have added value to the risk cover at minimal cost. Riders are nothing but add-ons coming along with the base policies for a slightly additional premium. Riders have become the major instruments for the organizations to lure the customers away from the competitors. The removal of 30% cap on the premium of the base policy for the health riders alone has come as a shot in the arm for many players since this is used as an Unique Selling Proposition by many private players vis a vis the LIC [12]. Later, LIC has also started announcing riders along with the main policies dancing to the tune of the market forces. This could see many non-life players going out of the business as life insurers offer a plethora of personal line products as add-ons. Riders can also be availed by the existing policyholders.

Tapping the niche markets: Private insurers are concentrating much on designing attractive products by investing heavily on research, studying life expectancy and health statistics across age groups, income levels, professionals and regions on their own instead of relying on data with state insurers. The products are designed with a technical team of actuaries and a product development team working closely together to target the niche market. The innovations for the niche markets are abound and to name a few..

MetLife India Insurance Company has recently launched a Charitable Trust Policy in Kolkata, which has evoked a lot of interest especially among the Marwaris business community who want to set up a temple in their name after their death. Similarly a Buy & Sell Agreement cover from the same company permits a business enterprise to take out a life plan on each of its partners, to ensure that the company continues.

The other segments, which have attracted almost all the players, are the women and the children segments. Though the State insurer has had a chunk of products sufficiently for a longer time, it faces stiff competition from the private players in these segments.

Tata AIG has offered a specialized life insurance package where the insured and the employers of the insured have a say in it. Termed as Worksite Marketing, AIG, which has adopted this practice in different places across the world, is spreading the concept in India too. Worksite Marketing is a distribution method used to offer voluntary insurance products (employee benefits) to employees at their place of work with the sponsorship or backing of their employer, traditionally done on a deduction from the payroll. The policyholder carries the policy with himself throughout his life, even if it happens to change the organizations.

Tata AIG General Insurance, for the first time in the country, has launched a specialized product for Accountants (after tasting the success with specialized products such as Directors and Officers policy in India) in its bid to segment the market for professional indemnity policies. The policy has been designed with the assistance from Bombay Chartered Accountants Society. This policy covers claims pertaining to professional negligence, wrongful acts committed in the performance duties. It also provides for coverage of all legal expenses incurred in defending such claims.

Any other way to promote non-smoking? Or to reward those who give up smoking? Om Kotak Mahindra has taken an initiative by offering a term insurance plan - a pure protection product - to non-smokers at much cheaper price. As against an annual premium of Rs.2400 on a Rs.10 lacs policy for a 10 year term for a 30 year old under the preferred term plan, the regular term premium works out to Rs.3400 for a similar cover. Though there are apprehensions in the industry circle about the success of the policy, the intention of the company is quite appreciated.

Even the unborn child's future can be safeguarded now. The offspring can be insured against unfortunate congenital defects. State owned General Insurers have started aggressively marketing these kinds of products.

Thrust to the rural markets

Thanks to the norms stipulated by the regulator IRDA, all the players have turned their eyes towards the rural market. Towards

(a) Life Insurers	(b) General Insurers
HDFC Standard Life Insurance Company Ltd.	Royal Sundaram Alliance Insurance Company Ltd.
Max New York Life Insurance Company Ltd.	Reliance General Insurance Company Ltd.
ICICI Prudential Life Insurance Company Ltd.	IFFCO-Tokio General Insurance Company Ltd.
Om Kotak Mahindra Life Insurance Company Ltd.	Tata AIG General Insurance Company Ltd.
Birla Sun Life Insurance Company Ltd.	Bajaj Allianz General Insurance Company Ltd.
Tata AIG Life Insurance Company Ltd.	ICICI Lombard General Insurance Company Ltd.
SBI Life Insurance Company Ltd.	Cholamandalam General Insurance Company Ltd.
ING Vysya Life Insurance Company Ltd.	Export Credit Guarantee Corporation Ltd.
Allianz Bajaj Life Insurance Company Ltd.	HDFC Chubb General Insurance Company Ltd.
Metlife India Insurance Company Ltd.	
AMP Sanmar Assurance Company Ltd.	
Aviva Life Insurance Company Ltd.	

Table 1: List of players in life and non-life insurance.

ensuring equitable distribution of insurance policies in every nook and cranny of the country, IRDA stipulates the rural obligations to be met by the players over the years [13].

The rural obligation on part of the new private insurance companies is incremental in nature. It goes from 5% to 15% over the period of 5 years for life insurance and from 2% to 5% in case of general insurance. IRDA has also defined what it meant by rural.

The place should have a population of less than 5000

Secondly, the density of the population should be less than 400 persons per square kilometer.

75% of the male population should be engaged in agricultural pursuit.

Of the 11 private sector life insurers, 10 companies substantially performed in the rural sector with the percentage of policies issued in the rural sector standing higher than 5% level mentioned. Most of the non-life insurers achieved the base level of 2% gross premium from rural sector. Since the penalty for not adhering to the obligation includes Rs.5 lacs penal fee and upto 3 years of imprisonment of the Chief of the organization, all the companies are swarming the rural market. The challenge lies in reaching the critical mass with the redesigned products. And the organizations have been fairly successful in their efforts. For instance, Om Kotak Life Insurance is successful in selling the single premium policy in rural market. Reaching the doorsteps of the villagers through non-conventional channels like Regional Rural Banks (RRBs), Co-operative banks, Self-Help Groups (SHGs), ITCs e-choupal is also being tried by the players.

Tapping unconventional distribution channels

Nevertheless all the players depend heavily on their agents force to reach out (LIC has reached a figure of 8,50,000 agents and planned to increase it to 1 million by this year), they are trying out other distribution channels also like banks and corporate agencies in addition to the channels mentioned above. The following table shows the strategic alliances the insurers have entered into to distribute their products (Table 2).

LIC is also exploring ways to rope in Regional Rural Banks (RRBs) across the country. Cross-selling could be another key strategy in selling insurance provided the restrictions on the functioning of corporate agencies are lifted. Once the curbs are removed, the market may see a wave of cross-selling [14]. Royal Sundaram Alliance may offer household insurance with Sundaram Housing Finance and sell customers of Sundaram Finance Mutual Fund a whole range of insurance products. ICICI-Prudential and HDFC Standard will tie up with their parent companies to use their network.

Once the much-awaited Insurance Brokers Regulations comes into force, the industry is poised to change the way the insurance products are sold with the entry of brokers. While an insurance agent represents an insurance company and offers only the products of that company, an insurance broker is independent and represents a number of insurers. He can also compare the benefits of different policies and premiums to find the best coverage for the customer.

Cause Related Marketing (CRM)

Cause Related Marketing has become the order of the day in Insurance industry. By creating a goodwill about the organizations, the insurers are making an attempt to change the negative attitude of the people towards insurance products [15]. For instance,

Towards serving the society in a better way, LIC has adopted a novel way through its Bima Grams policy. Accordingly, LIC pays 25% of the premium collected from the villagers or Rs.25000 whichever is lesser for undertaking developmental work in the villages provided,

The population of the village is between 1000 and 5000

Life insurance coverage for atleast one person in 75% of the households

Acquisition of 100 new policies in a single year

Iffco-Tokio General Insurance Company is planning to launch a novel insurance policy Sankat Karan for farmers in which for the every purchase of 50 kg bag of fertilizers, insurance worth Rs. 4000 would be provided to the farmers. The policy will remain in force for a period of 12 months from the date of purchase.

Birla Sun Life Insurance has adopted 332 villages around Renukoot and actively involved in improving the lives of the residents.

De-tariffing in general insurance

Though the issue of de-tariffing in general insurance has been debated upon at length, the response from the industry is quite mixed. By fixing a tariff for a product, Tariff Advisory Committee (TAC) maintains discipline in the market and makes sure that the insurance companies do not resort to underpricing to gain market share. IRDA is now working on detariffing the general insurance sector beginning with commercial vehicle business since it constitutes more than two fifth of the non-life business volume. Both IRDA and TAC are working out the modus operandi of the deregulations of motor premium. Sensing the indifferent attitude of the private general insurers towards motor insurance, the Government is contemplating on coming out

Sl.No	Insurer	Banks / Corporate Agencies
1	Bajaj Alliance (General Insurance)	Jammu & Kashmir Bank, Karur Vysya Bank, Punjab & Sind Bank
2	United India Insurance Company Ltd.	Andhra Bank, Indian Bank, South India Bank, Federal Bank
3	New India Assurance Company Ltd.	Punjab National Bank (General Insurance) Vijaya Bank (Life Insurance)
4	SBI Life	SBI branches and branches of its subsidiaries
5	ICICI Prudential	Allahabad Bank, Bank of India, Citibank, Federal Bank, Lord Krishna Bank, Punjab and Maharashtra Co-operative Banks
6	LIC of India	Corporation Bank, Oriental Bank of Commerce
7	Metlife	Karnataka Bank, Dhanalakshmi Bank, Jammu & Kashmir Bank
8	AMP Sanmar	Kerala based Co-operative Banks – Peruntalmanna Bank and Manjeri Bank
9	Birla SunLife	Citibank, Deutsche bank, IDBI Bank, Catholic Syrian Bank, Bank of Rajasthan, Bank of Muscat
10	HDFC Standard Life Insurance	Indian Bank, Union Bank
11	Dabur CGU Life	Lakshmi Vilas Bank, Canara Bank, Amex, ABN Amro Bank

Table 2: The strategic alliances the insurers have entered into to distribute their products.

with obligations to be met by the private insurers in this segment (like rural business). Once the motor insurance premium is detariffed, the end user is likely to see another cola war like.

Conclusion

Observing the trends the industry has been moving for the last two years, the commitment of the players to take the business forward is quite apparent. With the increase in awareness level about the insurance and the products, the day is not far off all the insurable population in the country would have been brought under the insurance net. The Government's resolve to continue with the reforms coupled with investor friendly IRDA's regulations will surely take the business far.

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