

# India Insurance: Opportunities and risks for Indian insurance industry

**Peeyush Dalmia**  
Junior Partner, McKinsey & Co

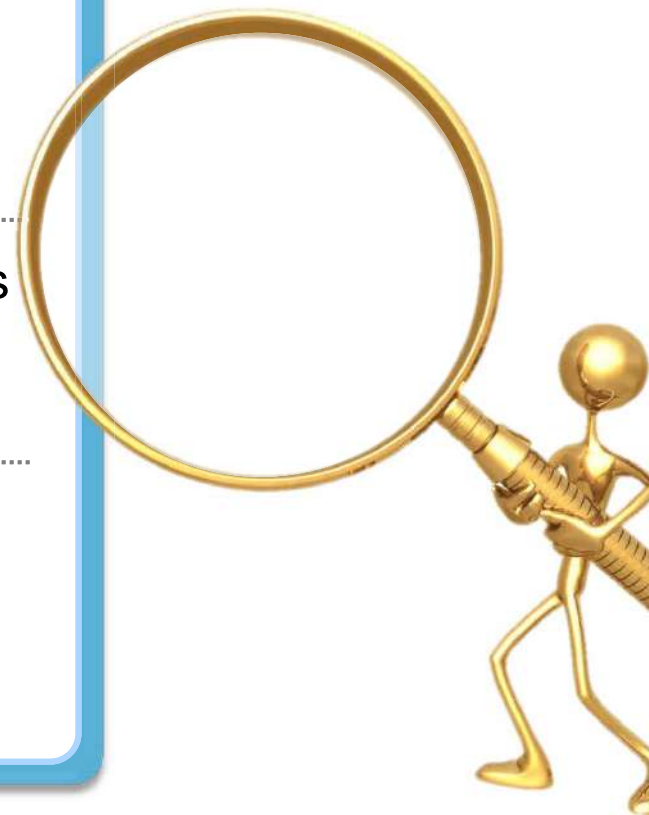
December, 2013

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

## Key messages

- » The Indian insurance sector has made significant progress in the last 12 years; however the industry is far from realizing its full potential
- » Both the life and general insurance industry have lagged behind significantly in terms of delivering value
- » Stark differences in performance and outcomes between top performers and the rest – industry increasingly getting polarized
- » Significant value at stake in re-inventing business and delivery models – capturing this value will require concerted set of actions from all stakeholders



# The industry has made progress on several dimensions

## Life Insurance



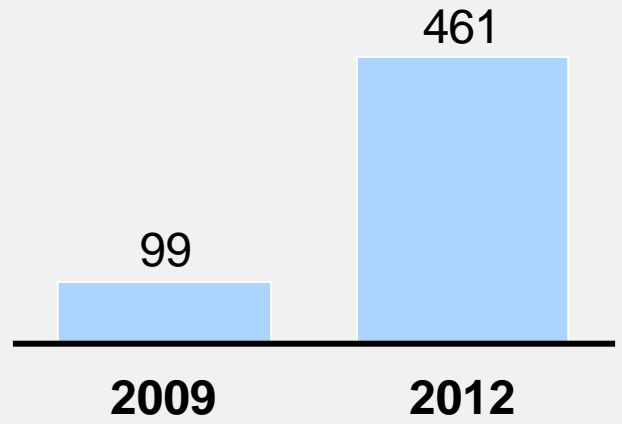
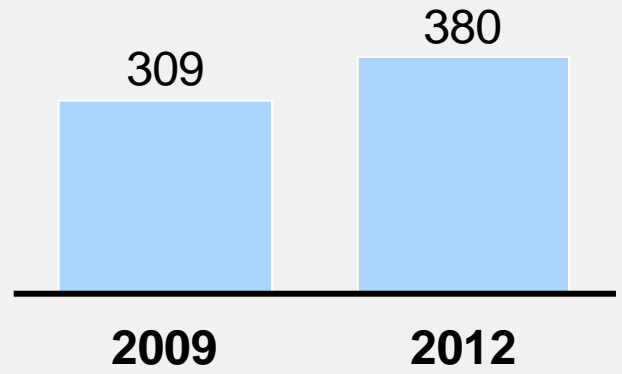
## General Insurance



**Growth**  
(Percent;  
2000-2013)



**Lives covered**  
(Million;  
2009-2012)



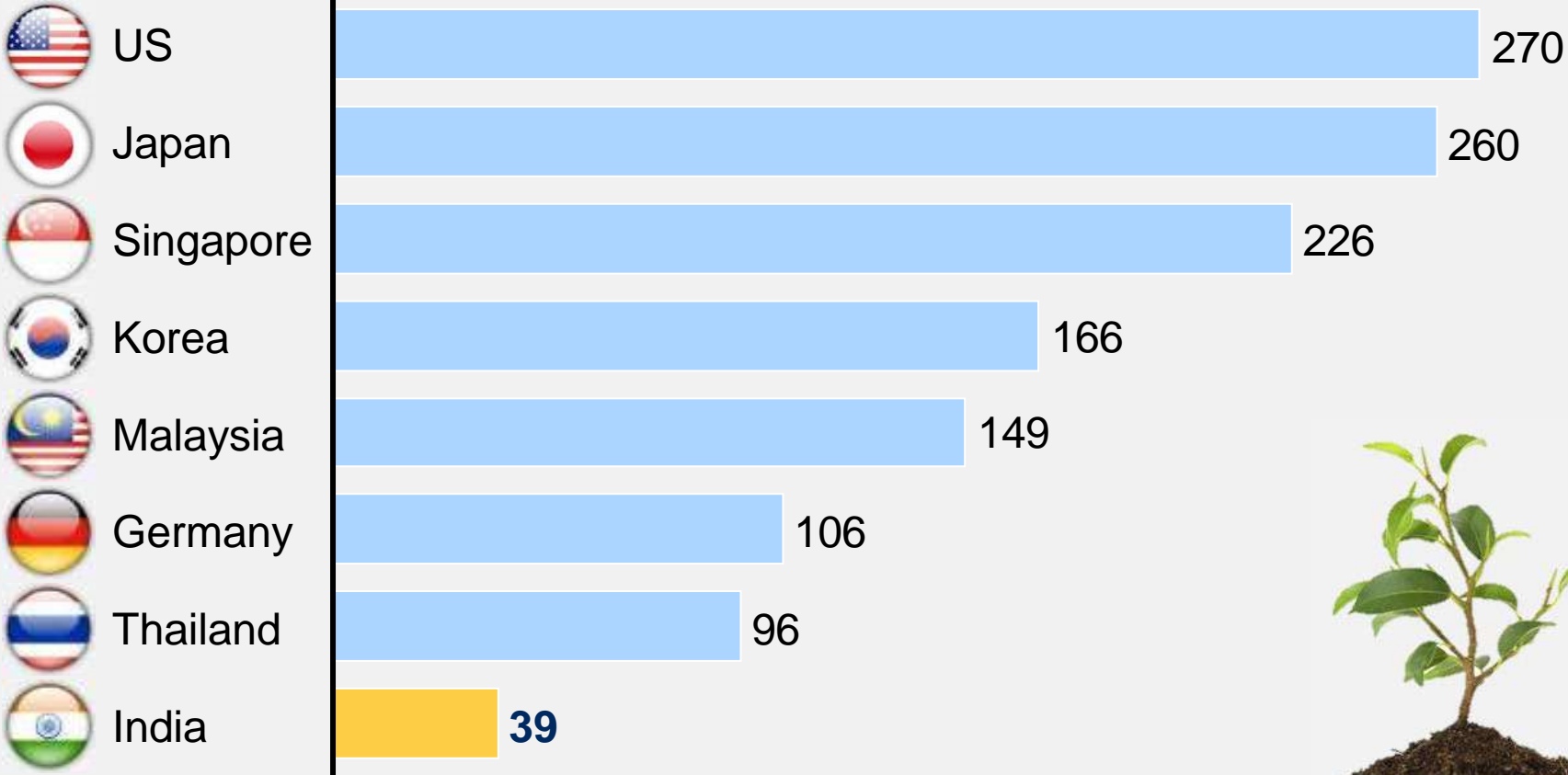
**Global ranking**  
(2000; 2012)



# Large unfulfilled potential – Level of protection coverage through Life insurance

## “Protection” (Level of sum assured)

Percentage of GDP , 2013



1 For year 2012  
2 For FY 2013 (as on 31st March, 2013)  
Note: 1 USD = INR 53.8

# Large unfulfilled potential – General insurance penetration across different risk categories

Penetration level relative to global levels  
■ <50%    ■ 50-75%    ■ 75-100%

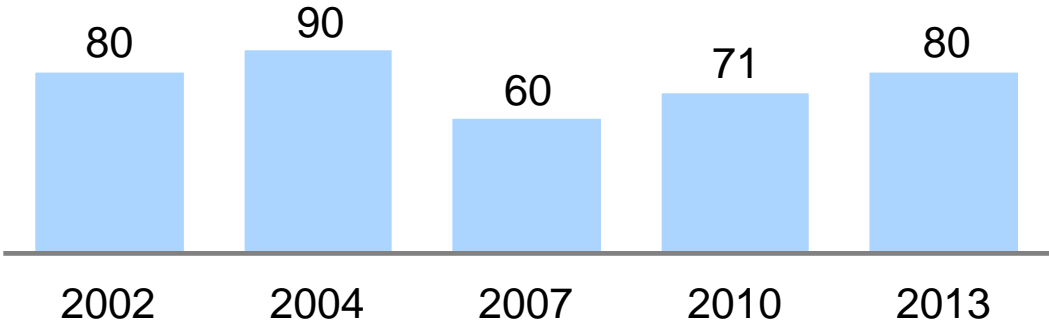
Individual Risks to be covered			Penetration base	Penetration	Benchmark	Commercial risks to be covered			Penetration base	Penetration	Benchmark
Vehicle	Cars	New <sup>1</sup>	Vehicle PARC	80%	85%	SME	Vehicle	MCVs and HCVs	Vehicle PARC	70%	>85%
		Old <sup>1</sup>		60%				LCVs and PCVs		70%	
	Two-wheelers			25%		>90%	Employees	Group health	Lives associated	10%	75%
Home			Home ownership	<1%	>95%	Asset protection	Core property risks (fire, engg, marine)	Industrial GDP	0.14%	3% <sup>4</sup>	
Health	Mass affluent+	Lives associated	20%	90%	Corporates	Employees	Group health	Lives associated	70%	80%	
	Mass market		Very low	75%		New projects	Engineering	Industrial GDP	0.83%	3.5% <sup>5</sup>	
	Below mass		40% <sup>3</sup>	65%	Asset protection	Fire	Transport				Marine
						Business payments					
						Professional indemnity	Liability	Industrial and services GDP	0.04%	1.25%	
							Aviation				

SOURCE: IHS Global Insights; Autocar; IIB; IRDA; NCAER; RSBY website; US census bureau; AM Best; Association of British Insurers; RBI; McKinsey Global Insurance pools; McKinsey analysis

# Industry has lagged behind on value creation – Life insurance

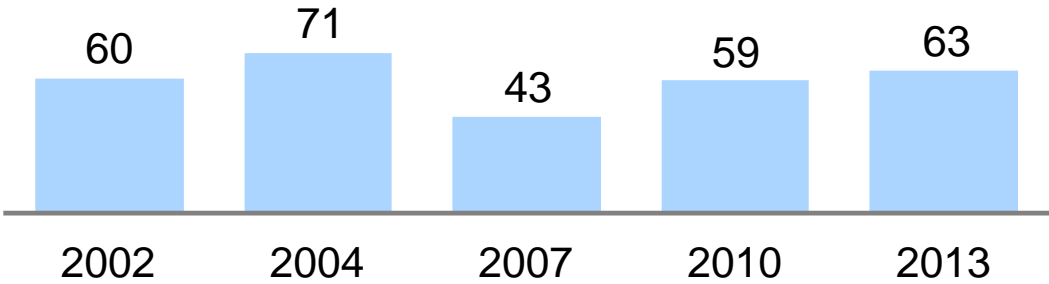
## Industry efficiency has deteriorated since 2007 and is back to 2002 levels

Opex+Commissions / New Business APE; Percent



## Customer retention and loyalty leads remain low

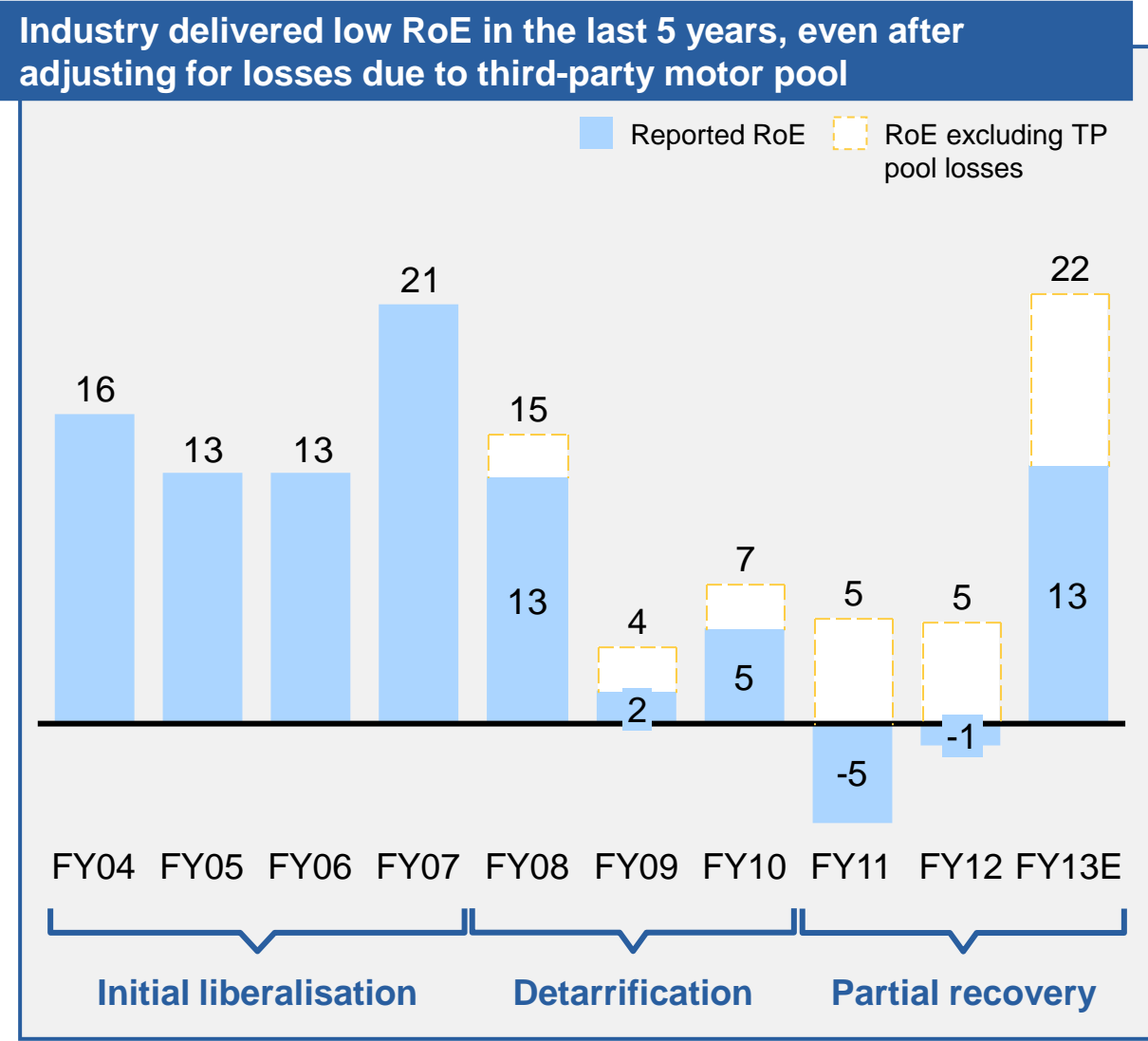
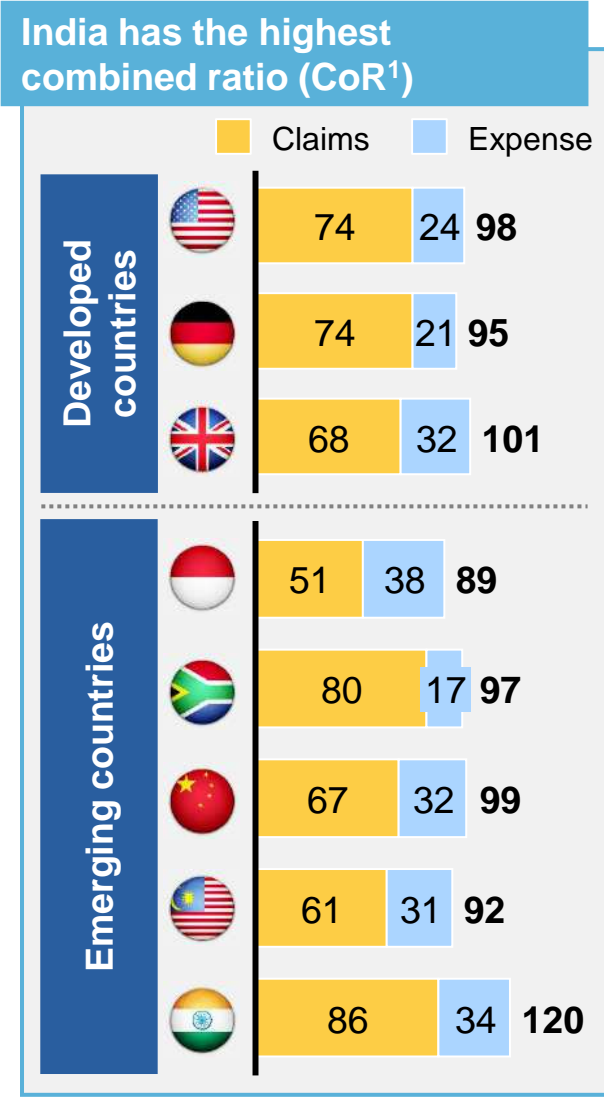
Conservation ratio; Percent



- **Low duration portfolio (<5 years)**
  - Not meeting objective of long term savings
- **Low profitability: India has among lowest margins globally**
- **~USD8 billion of capital invested to date; >60% to fund losses**

# Industry has lagged behind on value creation – General Insurance

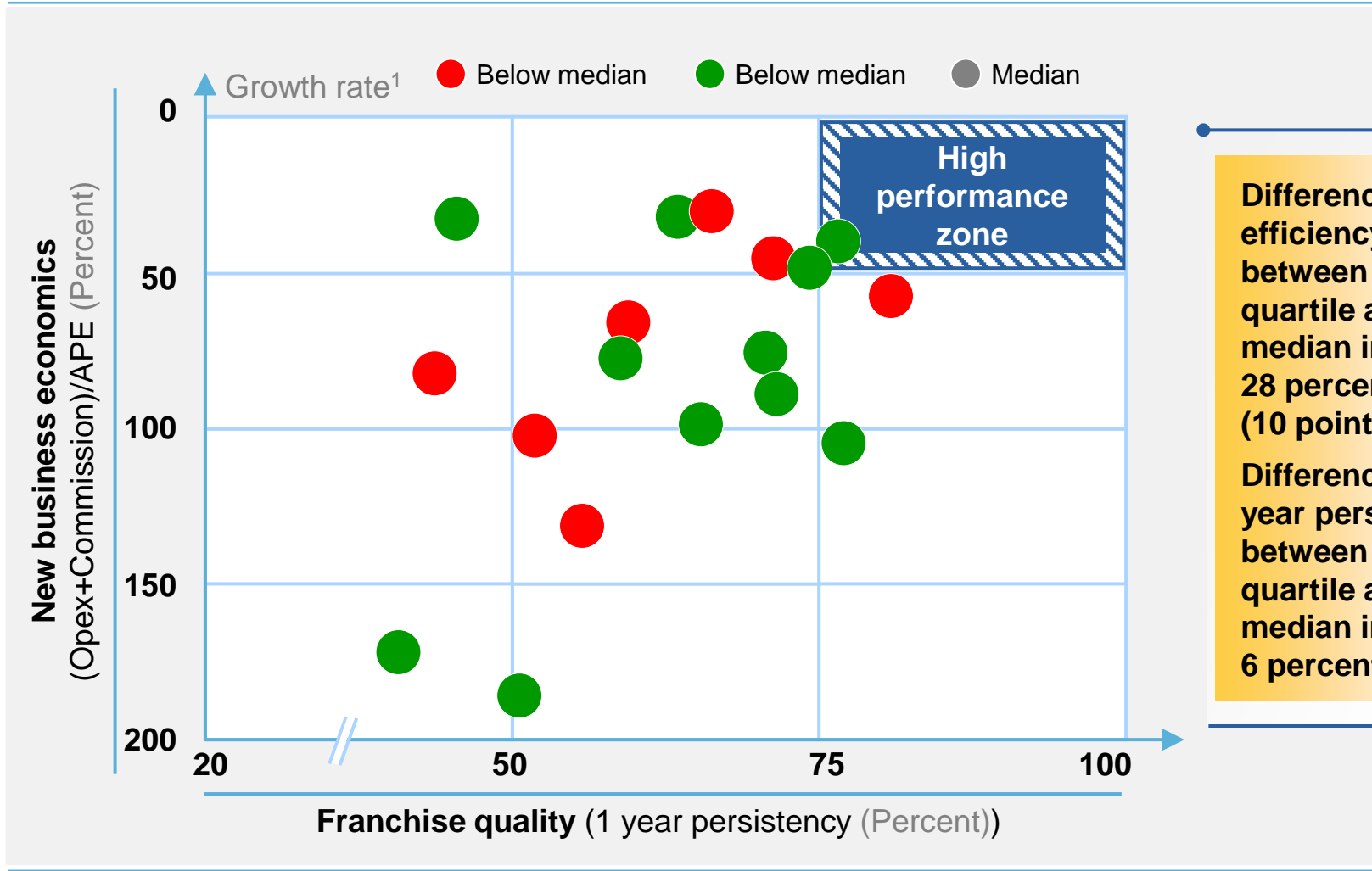
2001-12, Percent



<sup>1</sup> CoR for India includes the impact of motor TP pool losses

# Significant spread in performance across players resulting in increasing polarization – Life Insurance

Percent, 2013







**Difference in efficiency ratio between top quartile and median in 2013: 28 percent points (10 points in 2010)**

**Difference in 1 year persistency between top quartile and median in 2013: 6 percent points**

1 CAGR growth from FY 10 to FY 13

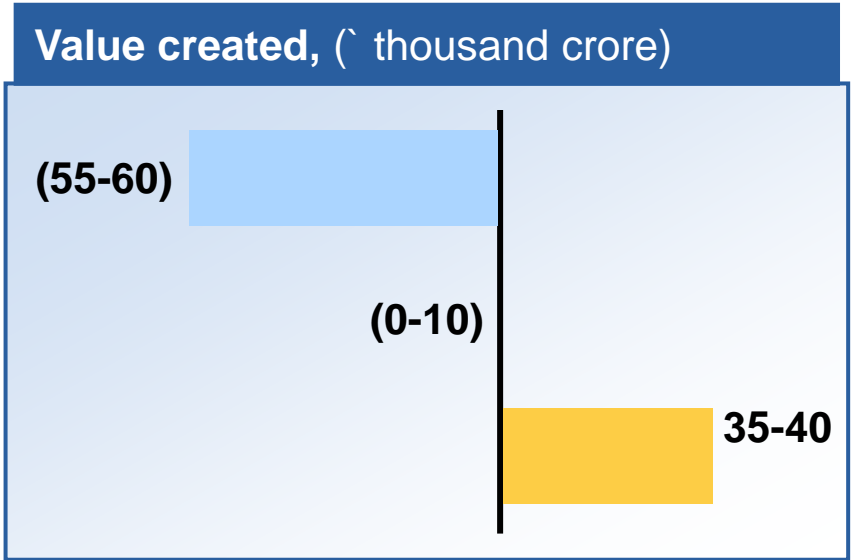
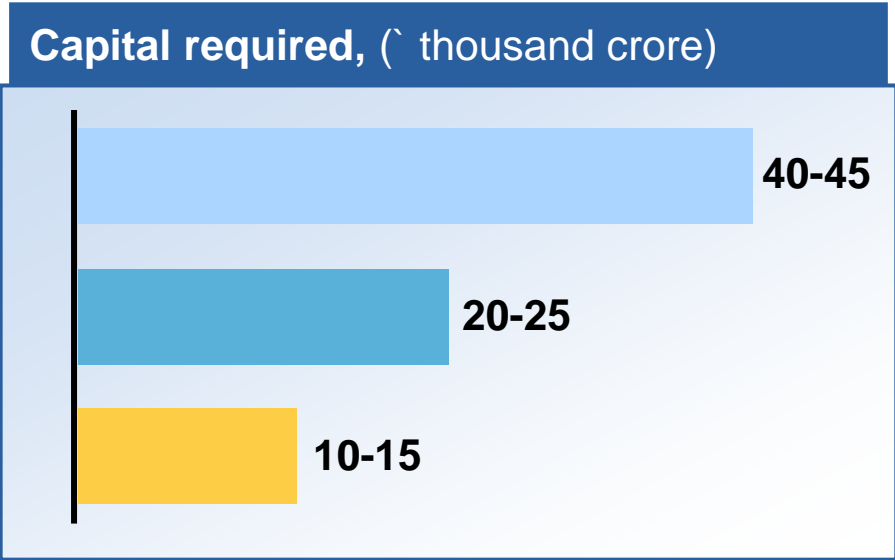
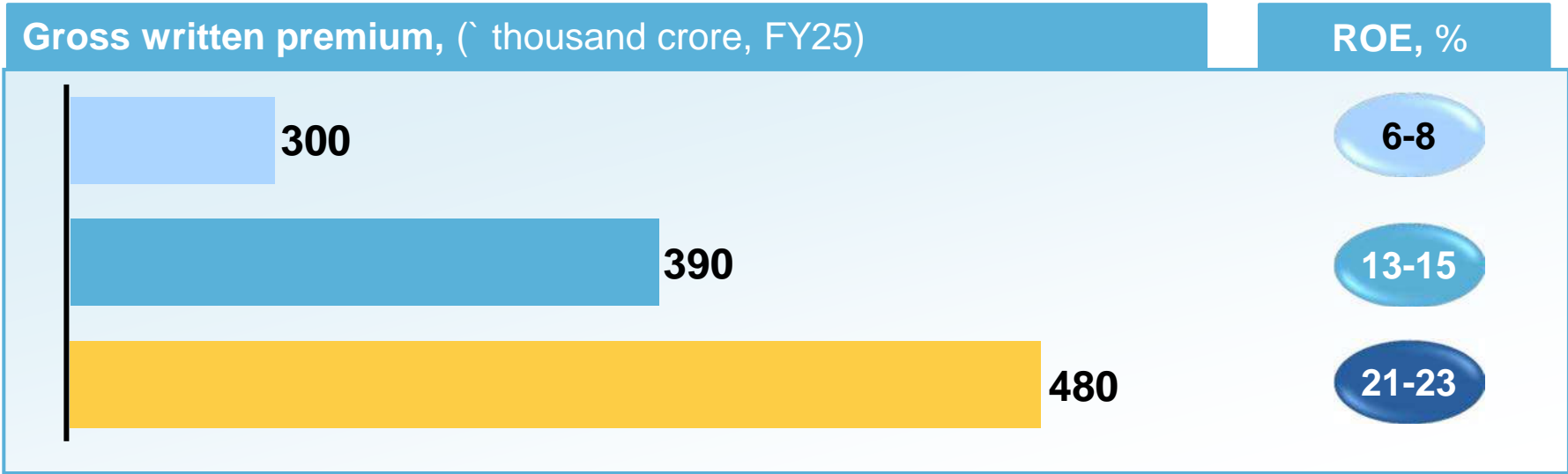


# Value at stake is significant – Life insurance

	2013	2025 aspiration	Improvement
<b>GWP</b> Rs. crores	287,000	12,50,000 – 15,50,000 	13-15% CAGR
<b>New business economics (Opex/APE)</b> Percent	80%	30-40% 	2-2.5x improvement
<b>Conservation ratio</b> Percent	63%	85% 	30% improvement
<b>Protection – Sum assured to GDP</b> Percent	35%	80-100% 	2.5-3x improvement

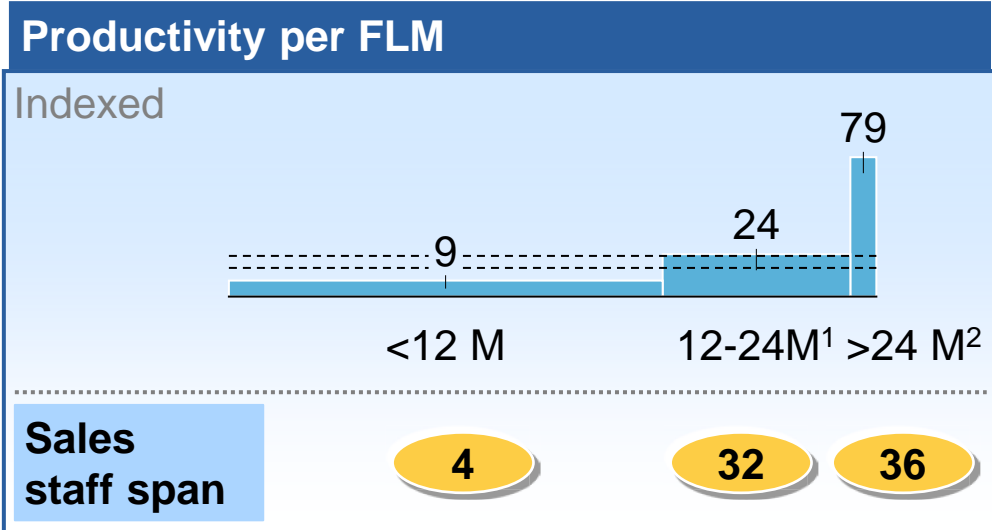
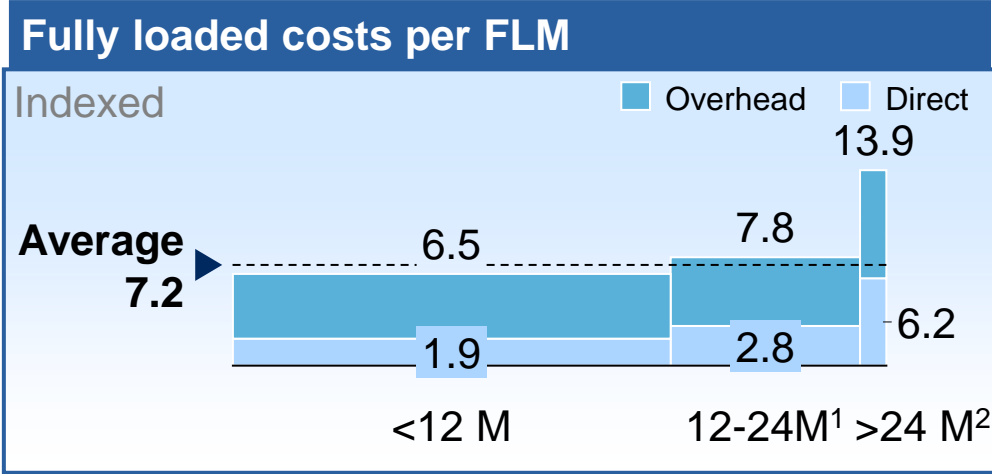
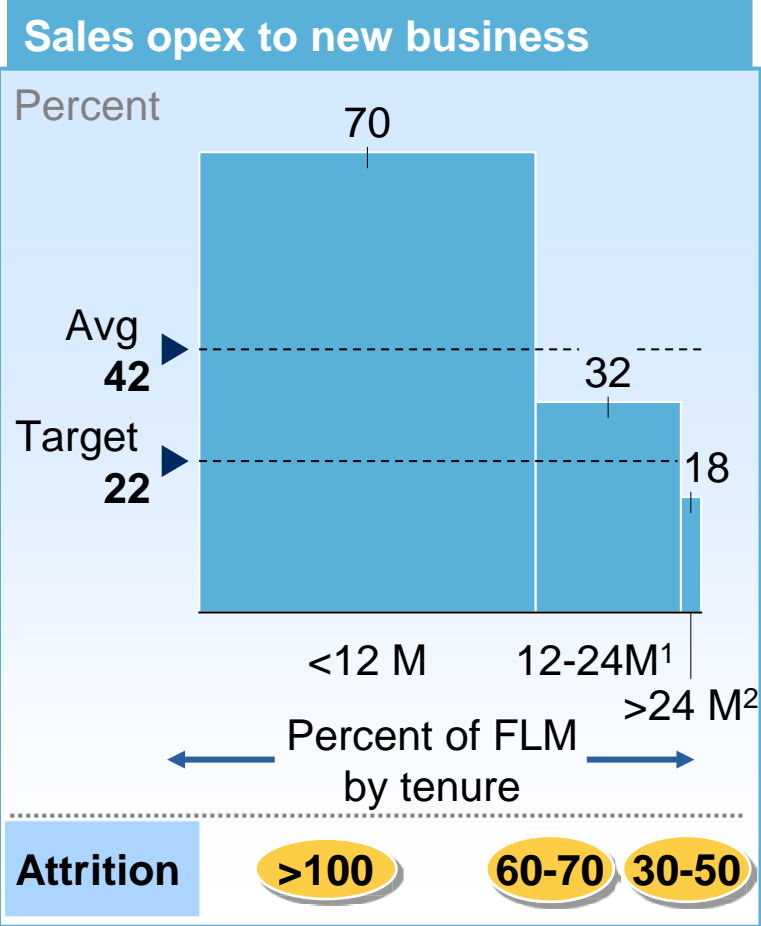
# Value at stake is significant – General insurance

■ Status quo 
 ■ Gaining momentum 
 ■ Inclusive, progressive, high performing



# Current agency economics highly skewed with short-end resulting in significant drain – need to rethink models

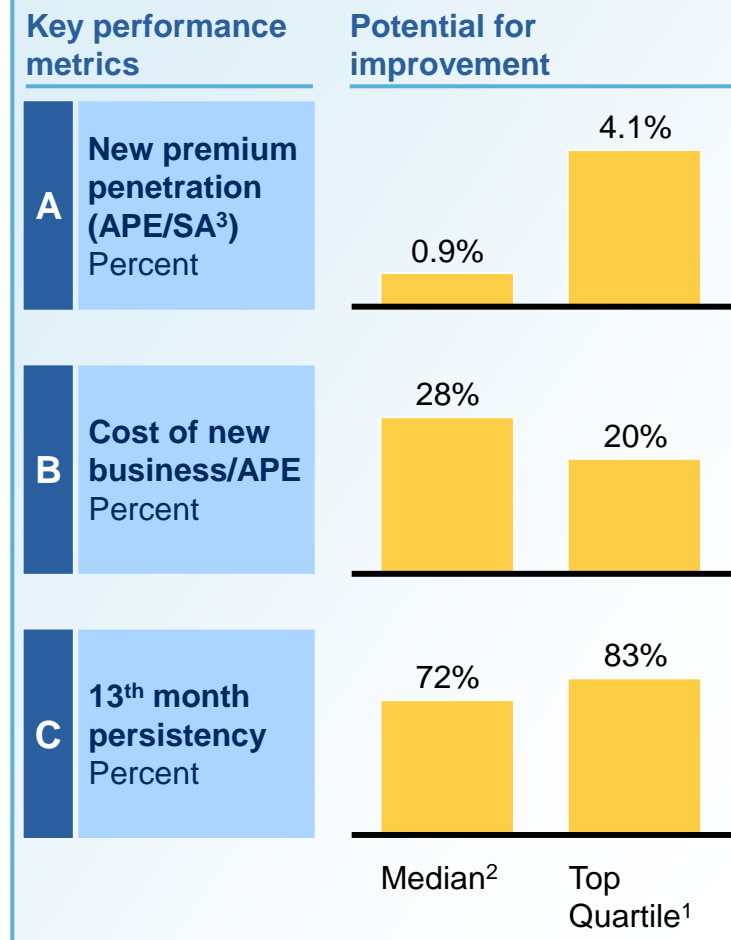
ACTUAL LIFE INSURANCE EXAMPLE



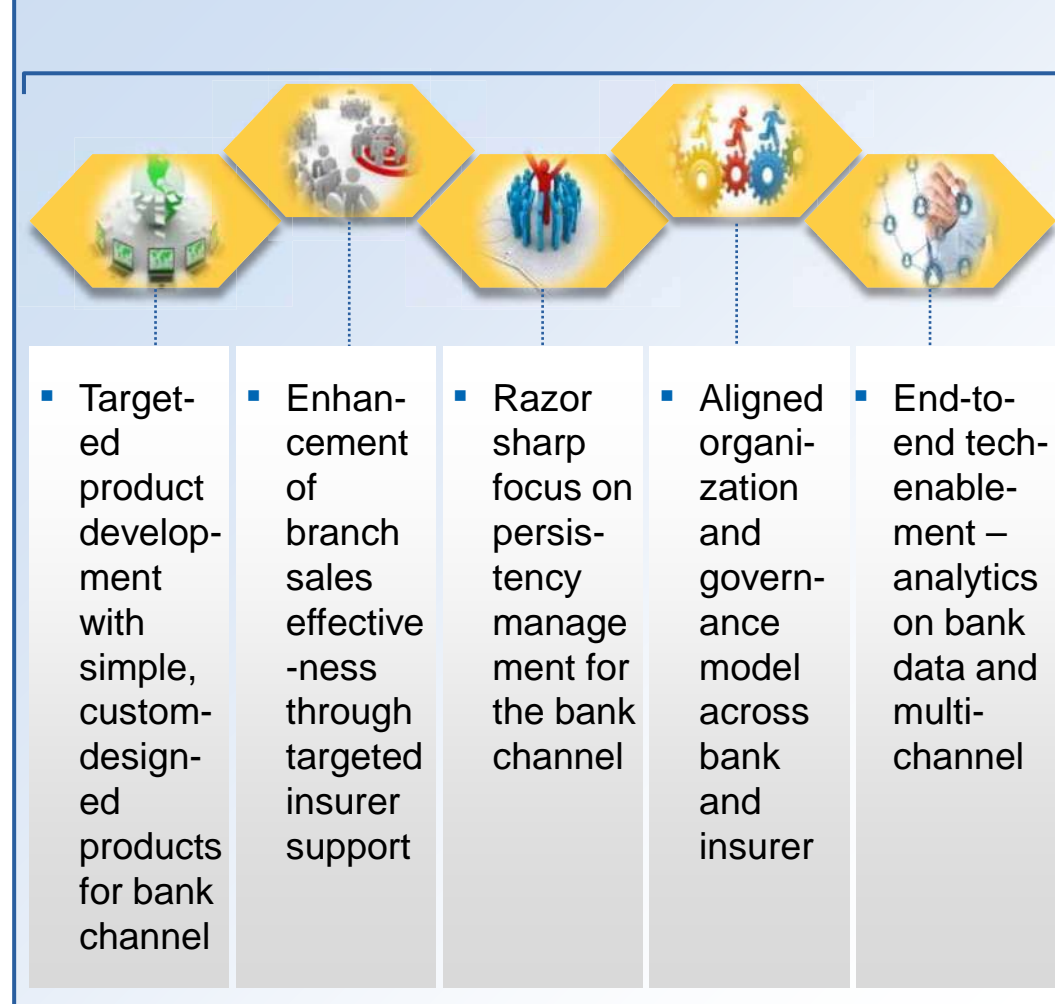
# Opportunity to create a more tightly integrated “Banca 2.0” model

## Wide variation in bancassurance performance

### Wide variation in bancassurance performance



## Creating the “integrated” Banca 2.0 model



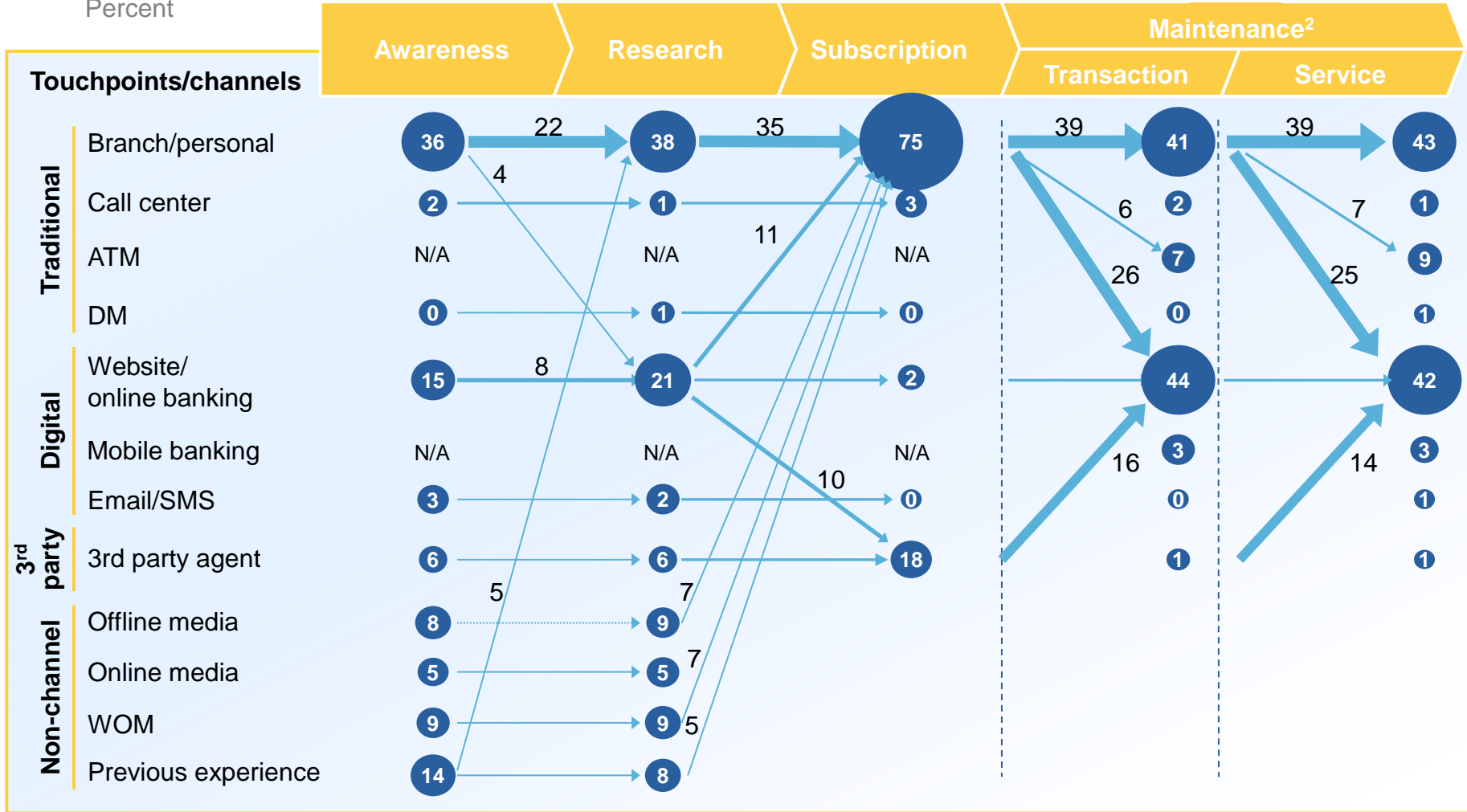
1 Top Quartile is average of top 2 bank partnerships in the respective metric; 2 Median of 8 bank partnerships; 3 Savings account balance

# Consumers are hopping across multiple channels in their decision journey

Share of customers using each touch-point/channel dominantly at each phase<sup>1</sup>

Percent

● Size reflecting percentage of customers  
 X  
 → % movement of consumers



1 Only most important paths are shown here

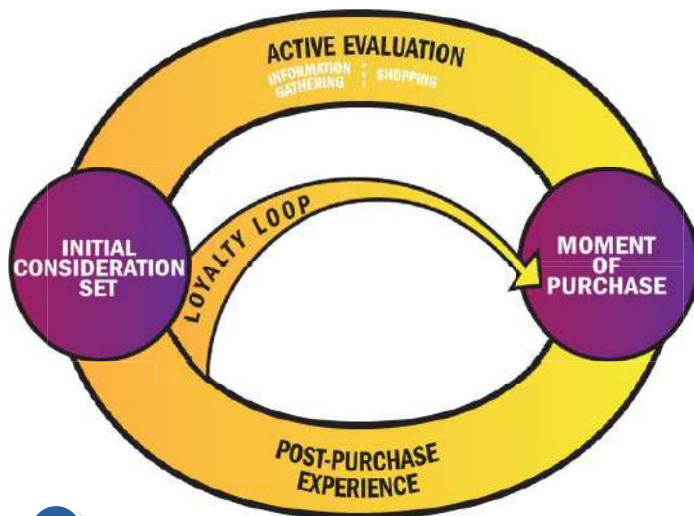
2 All arrows to maintenance activities are directly from Subscription phase (i.e., Transaction and Service phases are not sequential)

# Given today's 'Consumer Decision Journey', insurers need to leverage digital channel to get into active evaluation

## Consumer decision journey

- 1 Initial consideration set (ICS)**
- The consumer has an initial set of 2.3 FIs in mind

- 2 Active evaluation (AE)**
- On average, 1 FI not in ICS get added to active evaluation







- 3 Closure**
- 40%-80% of closure driven by channel experience
  - Customer decides between the 3.3 FIs

- 4 Loyalty loop (LL)**
- Active loyalists 80% more likely to recommend their brand compared with other consumers

## Imperatives for insurers

- Leverage digital channel to get into active evaluation
- Optimize search engines
  - Optimize web page
  - Digital marketing
  - Leveraging social media partnerships

# Opportunity to leverage technology to transform business models

Elements	Real examples of impact
 <p><b>Differentiated customer experience</b></p>	<ul style="list-style-type: none"> <li>Technology allows for a highly interactive and differentiated customer sales process</li> <li><b>&gt; 70% customers rated 5</b> (on 1-5 scale) as feedback for digital sales process</li> <li><b>~25% increase in ticket size</b></li> </ul>
 <p><b>Real-time performance management</b></p>	<ul style="list-style-type: none"> <li>Ability to track inputs through lead system in fact based manner</li> <li><b>20-30% improvement</b> in sales performance</li> </ul>
 <p><b>Streamlined fulfilment</b></p>	<ul style="list-style-type: none"> <li>Reduce time and effort leakage in manual process (e.g., data collected several times, need for paper, need for several meetings)</li> <li><b>Meetings needed to close sales reduced ~100%</b></li> </ul>
 <p><b>On-demand, standardized capability building</b></p>	<ul style="list-style-type: none"> <li>Technology allows for               <ul style="list-style-type: none"> <li>On demand skilling</li> <li>Innovations e.g., gamification to train sales force</li> </ul> </li> <li><b>Videos used to skill</b> sales force</li> <li><b>Games and certification</b> to teach ideal sales process</li> </ul>

# Limited customer focused product innovation compared to other markets – example, Allianz in Germany

## Value proposition

"The accident insurance that also nurses, cleans, and shops."



## Value proposition appeals on three levels

- **Emotional appeal:** "You are taken care of"
- **Actual need:** Accidents not unlikely for 60+ target group and services offered potentially difficult to obtain
- **Objective performance:** Wide array of services for attractive price

## Product features

- Traditional accident insurance coupled with a selection of related services
- **Target:** 60+ customers
- **Comprehensive services:** provided for up to six months after the accident and include
  - Shopping service
  - Laundry
  - Cleaning
  - Personal care (e.g., assistance with eating, washing, etc.)
  - Organization of pet care and garden care

## Allianz's product has been successful in Germany

- More than 100,000 policies were sold in the first year
- Concierge services have prevented the insurance product from becoming commoditized



Realizing the full potential will require all stakeholders to come together

## Industry collaboration



**Raise the profile of Insurance  
in Indian ecosystem**



**Define standards and protocols**  
*Medical; Auto repairs;  
distributor standards;  
technology standards*



**Co-sponsor building of  
common infrastructure**  
*Skill building; Fraud bureaus;  
Investigation units*

**Inclusive  
progressive  
and high  
performing  
sector**

## Policy and regulatory framework

**FOSTER** innovation and penetration  
Product reforms, distribution reforms

**STRENGTHEN** industry structure  
Risk based capital; disclosure norms

**ENABLE** common industry infrastructure  
Information sharing, catastrophe funds

**ATTRACT** foreign capital  
Capital, Reinsurance hub

**Inclusive  
progressive  
and high  
performing  
sector**

Thank you



Ins