Prospects and Issues of Online Insurance in India

[1]**Dr. Sudhansu Sekhar Nayak,** Lecturer in Commerce, R.N.College, Dura, Berhampur-10, Ganjam(Odisha)
[2]**Anita Kumari Patro**, Lecturer in Commerce, Khallikote (Auto) College, Berhampur Odisha
[3]**Kusa Panigrahi**, Research Scholar in Commerce, Berhampur University, Odisha

Abstract: **Now Internet is being used to compare prices on everything from travel to hospitality to education to loans, and more so, insurance products. With the help of Internet, the industry has been able to tide over the constraint of 'human' contact. Not only that, consumer is also purchasing different policies online in the wake of increased transparency, ease and advantage of saving money. While the life insurance industry got affected by the introduction of cap in charges, the general insurance industry got impacted by price detariffication and Motor third party risk pooling arrangement. Online policy purchase in India, while currently small (2% of overall offline sales) has grown at the rate of 200% in the last 2 years. The rate of growth is expected to continue to be in triple digit figures in the near future. As per market estimates, almost 13 million searches a month are related to insurance, retirement and pension. With the third largest base of internet users in the world and growing high-value and demanding consumer segment, many companies are coming up with customized offerings to tap the increasing appetite of customers looking for options. Owing to issues like lack of transparency of information, lack of standardization, arrangement of key terms, most of the online insurers were unable to make an impact. Online insurance today is merely an inward looking transactional process. It's about collecting data of prospects, setting up backend to handle that & scaling up with the hope of a higher business gains. Sale of the product to the user is not based on best fit but on who pays the most.**

Insurers that better understand the buying behavior of online customers, develop innovative, attractive and simple products catering to specific customer needs and, most importantly, have a robust communication and customer engagement model backing their online marketing strategy will emerge as future market leaders in online insurance distribution in India the growing internet segment and consumer. Digital insurance in India is set to become massive, supported by developments like mobility to drive Internet growth, move over natives, the migrants are in full force and move over metres, the report said. Today, the overall influence of internet on insurance product purchase in India is already 6x and growing rapidly. Insurance companies in India are still lagging behind the consumers and have not invested enough to create digital assets to engage the mature consumers online. The biggest challenge for the industry would be to think big.

Keywords*: *Online policy purchase, Transactional Process, IRDA, Internet Users, penetration.

Introduction:

Insurance penetration in India at 3.9% was below the world average of 6.3% in 2013, as per the reply of the minister of state for finance Mr Jayant Sinha. The Insurance industry in India has undergone transformational changes over the last 13 years. Liberalization has led to the entry of the largest insurance companies in the world, who have taken a strategic view on India being one of the top priority emerging markets. The industry has witnessed phases of rapid growth along with spans of growth moderation, intensifying competition with both life and general insurance segments having. more than 20 competing companies, and significant expansion of the customer base. There have also been number of product innovations and operational innovations necessitated by increased competition, among the players. Changes in the regulatory environment had path-breaking impact on the development of the industry. Life insurers are trying to move more and more renewals to online channels. Currently online renewals are expected to be around 10-15% of overall individual business renewals, which means around Rs 15,000-25,000 crore worth of renewal premium is, already coming through the online channel for the industry. By 2020, online renewals are expected to be 35-50% of individual renewal premiums, wdiich will take online renewal premium to Rs. 1, 75,000 to Rs. 3, 00,000 crore.

Objective of the Study:

1. To study the emergence and growth of online insurance in India.
2. To figure out the challenges ahead for online insurance
3. To understand the Internet Insurance model.
4. The real potential of India for Online insurance marketing in India
5. The IRDA regulation for developing and promoting Online Insurance.

Methodology:

The paper is written on the basis of study of secondary data provided by many research organizations. Some of the organizations are national level reputed statistical organizations regularly conducting structured and unstructured sample surveys. Our report is also based on the findings of different state level data banks. These data are correlated for the obvious purpose of finding conclusions.

Present Scenario:

According to CII report, there are 10 life insurers offering term plans and 6 companies offering health and motor insurance online today, compared to only 4 insurers back in mid-2010. The total number of policies sold online has grown from 10,000 policies a month in year 2010 to 35,000 policies a month in year 2011. Insurers do like Online Insurance channel for the fact that the sales online are 20% to 25% cheaper compared to the one happening offline. "Also, it is a convenient medium of sale from the customer's point of view as there is no scope for mis-selling. The online sale is completely driven by decisions made by policy-buyers. The internet penetration in India has been on the rise, whereby increased number of people has access to internet both through computers as well as through mobile phones, including population in tier-2 and tier-3 cities.

Demographic Distribution:

Internet Insurance business is growing well in India these 2 years, according to a report published by Daily News & Analysis (DNA). Thanks to the rise of the internet access and a young generation of working middle class professionals who are reaching the cusp of adult life in India. Nonetheless, young consumers who are internet savvy are the key buyers for insurance online. "Online term plans and motor insurance policies are mainly picked up by youngsters and high net worth individuals. As policies offered online are easy to understand, they enjoy much demand," says AS Narayanan, chief distribution officer of Bajaj Allianz Life Insurance. Bajaj Allianz has been rolling out internet insurance initiatives targeting internet-savvy young consumers these past 2 years, including its iGain online insurance plan. However, India's insurers are still keeping complex insurance products offline and sold through conventional channels.

From E-commerce to E-insurance:

E-commerce adapts the principles of traditional commerce to support business processes over the Internet. It is the term used for the collective process consists of searching, procuring and purchasing goods over the Internet. A typical e- commerce transaction can be divided into the following phases:

Search: In this phase, a consumer searches for items from different online sellers.
Valuation: The consumer compares over from different sellers to select the item that best matches his needs.
Logistics: The details of the transaction are exchanged between the buyer and the seller. In this phase, the seller conveys the details of the item to the buyer and the buyer responds with specific requirements. Negotiation of price and other parameters take place during this phase. The protocol for the exchange is also determined in this phase. For example, the seller might accept a specific type of payment, or the buyer might prefer a specific mode of delivery.
Transaction: The actual exchange of the item takes place in this phase. The buyer pays the seller the required monetary amount decided in the previous phase. The seller then delivers the item to the buyer. Typically, this phase involves trusted third parties, like financial institutions issuing credit cards, and carriers delivering the item to the buyer.
Post-sales services: In this phase, sellers provide services related to the item after it has been sold. This might involve setup of the item at the consumer's location, or repair or replacement of a defective item. This phase is sometimes based on goodwill and often overlooked and neglected in both traditional and e-commerce.

Online insurance requires the traditional methods of insurance to be replaced by online processes analogous to those in e-commerce. In this paper, we have referred to insurance processes conducted over the Internet by the term e-insurance.

The rest four stages of e-commerce described above directly lend themselves to analogous steps for purchasing an insurance product online. Consumers search from deferent insurance companies for products that they are willing to purchase.

They evaluate the products from divergent companies to determine the one which best suits their needs. The terms of the insurance policy are then conveyed to the customer by the insurance company and the customer responds with details including a description of the entity being insured, the terms and the duration. When both the customer and insurance company agree to go ahead with the transaction, the buyer pays the initial premium to the insurance company and the policy certificate is sent to the buyer.

The post-sales phase of e-insurance is however considerably divergent from e-commerce. In e-commerce, human intervention is required for activities in the post-sales phase such as repair or replacement of parts. However, a major inter- action between an insurer and the insurance company occurs in the post-sales phase if the insurer submits a claim for the amount insured. Online claim settlement involves complex interactions between the insurer, the insurance company and possibly legal and judicial authorities and, in an automated environment, requires close interactions between humans and automated agents. This phase is therefore the most midcult to implement over the Internet and online insurance sites mostly rely on human intervention for this phase.

Categories:

Web Sites almost every insurance company has a homepage providing information about the company and products. However, these homepages are little more than passive online versions of the company's brochures. For example, the Indian insurance leader in the non-life segment National Insurance Corporation (NIC) details the policies that it carries. On the other hand, New India Assurance only provides contact information on its Web site. These sites are used primarily for marketing support and do not support interactive dialog with interested clients. Product Portals are sites that provide a collection of links to sites of interest. Examples of such sites are *Assure India,* and *Bima Guru.* Unfortunately, these sites are also equally passive as company Web pages.

Point-of-Sale Portals Unlike most other commodities, the sale of insurance products is initiated by the sellers. Certain sits exploit this approach by offering insurance products while selling insurable goods such as cars or while providing information on health or college education.

Intermediate Brokers are intermediate sites that do not sell insurance products directly but assist clients in matching their requirements with the policies offered by insurance companies.

Reverse Auction: In this model, the client is usually an organization interested in group insurance. The client announces its requirements and selects 5 the best offer made by an insurance company.

Aggregators: are sites that compare quotes from different insurance companies. The service is often supplemented with general information on products as well. Examples of such sites include *Insweb*, *Quotes Smith* and *e-Health* Insurance.

Policy Selection and Recommendation-insurance employs the internet to reach customers through advertisements more effectively since the internet integrates the traditional passive and active channels into one. Advertisement banners, e-mail notification and coupons are used to replace passive media where software agents replace their active human counterpart.

Police Purchase and E-certificate:

With the internet the policy purchase phase has probably been influenced and improve to the greatest extend. After selecting a policy that best suits his needs the buyer fills up an online proposal form and sends it to the insurance company. The insurance agents and the underwriters of the insurance company then examine the entity to be insured, determine the premium for the policy and send the final terms of the policy back to the buyer. The buyer then examines the terms of the policy and confirms his acceptance. Next the buyer, who has now become the insurer, has to pay the first premium for the policy through a credit or debit card.

Online Insurance in India:

Realigning the business model:

Life insurers have traditionally aligned themselves to models that are inherently conventional in its approach-individual agents, banks, corporate agents and insurance brokers instead of giving importance to either the customer or product segmentation. In fact while many insurers have built customer relationship databases, the data itself is not mined or tracked to increase the positive interactions with the customer. This has resulted in lower persistency levels (poor customer loyalty) and even resulted in customers avoiding face-to-face interactions with insurance agents. Persistency was long ignored by the insurance companies when the growth in new business premium was high. However, with the growth slowing down, focus on retention of policies has gained focus. Explosion of technology backed with the increase in internet and mobile telephony provides a low- cost opportunity as now life insurers can leverage some of the success of online banking and e-commerce to build an online product bouquet that engages the customer and enables him/her to buy.

Technology-enabled model for urban India:

There is enough evidence from developed markets that internet penetration and usage have a positive correlation with the performance and activities of insurance companies at various levels - lower customer acquisition costs, improved access to information, product innovation that cater to the needs of the customers and enhanced convenience. India has only 150 million internet users as of February 2013 with a penetration of 12 percent making it one of the least penetrated of BRIC nations. However, there has been a surge in volume and value of retail transactions in the last decade that reflects the comfort of the internet users to conduct financial transactions online.

Retail electronic transactions:

Online sales of insurance products have one important distinction-since the customers' needs and preferences have led to the purchase decision, the customer would ideally have made a properly informed choice. Also, since insurers do not have the opportunity to influence the customer's purchase decision, the design of the web portal needs to be easy to understand and interactive enough to make the transaction seamless. The products offered through this channel should meet the needs and offer benefits/features that differentiate the product from the offerings of their competitors.

In the past 2-3 years, a range of protection products that include health insurance as well have been offered to Indian consumers as against the pure term insurance policies that were sold earlier. Insurance companies in recent years have also witnessed that persistency and the proportion of claims being rejected is lower in case of the online customers making this segment an attractive and low cost channel. While the current size is marginal as compared to overall customer base and underwritten premium, the segment shall witness growth and reach a significant size in the future as the internet penetration increases and awareness of the customers also rise.

Growth in retail electronic transactions

Retail Electronic Transaction	FY04	FY 12	Annualized Return
Volume (Million)	157	1160	27.42%
Amount(INR Billion)	521	22075	59.71%

Source: Reserve Bank of India Bulletin 2011-12

Going forward, technology will have to be used effectively to provide means of allowing consumers make more educated choices. Technology will have to help Identify and provide a set of results of a specific insurance requirement as a function of its features and compatibility that is driven by logical algorithms and not just revenue to the internet company. This would require insurers to design websites that are easy to use and ensure that transactions are seamless. In the era of consumer, the ways and means of connecting with them is undergoing a major shift. The Internet has been BIG game changer .the BIG change that Internet has been able to bring is that it is 'Being bought' by customers from 'Being sold' to customers A case in point is New India Assurance which launched an

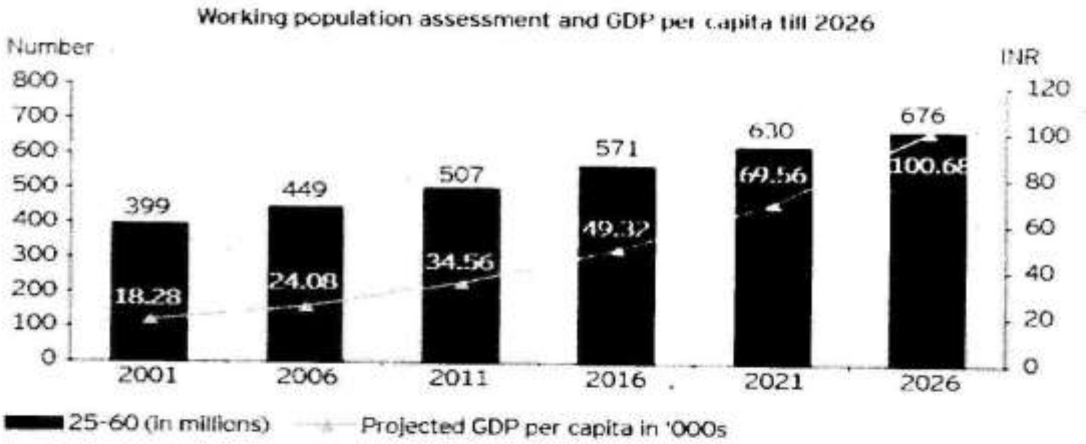
'online' platform for its products. The country's largest general insurer will offer products in motor, health, travel and personal accident space through this portal along with policy renewal facilities.

Today more than 165 million Indians have internet connections Indians spend more time on the internet than watching television and are the third largest users of social networking sites like Face book. Already, most of the Indians are using net banking. From a modest beginning, like the banking sector, with online transaction facilities for existing customers, insurance companies are now rapidly moving towards selling products online. It has been found that more than 45% of internet users search for financial services and insurance as a category.

The online journey of insurance started with emergence of comparison and research platforms. At the same time, the concept of insurance aggregation came into picture in 2005 with players like *Apna insurance* and *Bima deal* entering the market. Around 20 other players such as *Policy bazaar, Zibika, Fintact, My insurance club* and *Insuring India* launched their own aggregation sites. After testing the aggregation model, startups forayed into selling leads to insurance companies and earned a commission on every lead conversion. Most of the existing insurance companies started selling online in 2010-2011 and at present, almost close to 33 insurers are offering more than 1000 products online. A majority of them are currently focusing on term insurance but many brands are looking beyond term insurance and car insurance. They are considering the Internet as a future channel of distribution which can bring immense expansion to their business. Three insurance companies i.e. *Aegon Religare, Aviva Life Insurance & HDFC Life Insurance* have already included internet and online aggregators as a major focus in their distribution strategy. Over 65% of insurance based searches are dominated by one player. In India, with the required approvals in place, *Policy bazaar* and *my insurance club* have gone beyond the aggregation model and have started selling policies online. The overall growth registered by startups in aggregation model is not encouraging; however *Policy bazaar* registered phenomenal 200 % growth over the past two years. Currently, 70% sale of overall online insurance happens through *Policy bazaar.* Also in online lead generation segment where insurance aggregators sell lead to insurers, Policy bazaar dominates the market with 4 out of every 5 leads (via internet). My insurance club, a Mumbai based startup started in late 2009 reports 2 lakhs unique visitors every month. However, *My insurance club* did not reveal any specific number of leads it is selling to insurance companies. Currently, there are 9 insurance web aggregators operating in Indian Insurance Industry. Until the first half of 2011, majority of the insurance policies were bought by people e in metros and tier 1 cities. However, according to Policy bazaar data, around 39% of its traffic is from beyond the top 8 metros in the country. It has seen a huge demand for customers from mid level towns like Jaipur, Indore, Surat, Lucknow etc where they are not only interested in researching but also shown interest to buy. HDFC Life also reported a significant chunk of its sales now coming from tier 2 & 3 cities, as opposed to year 2012 when up to 90% of the sales were from metros.

Online Insurance in India: The Road Ahead

The demand for insurance products is likely to increase due to the exponential growth of household savings, purchasing power, the middle class and the country's working population. The working population (25-60 years) is expected to increase from 449 million in 2006 to 676 million in 2026. Increased incomes are expected to result in large disposable incomes, which can be tapped and the insurance sector in particular. Online insurance is expected to follow the growth route of online travel in the next 2/3 years to come. UK & European markets have clearly shown the way



Source: CMIE, Census of India, 2001

Where online insurance started with aggregation model and now 70% of auto insurance in most of European countries is sold online. The industry expects similar trends here in products life term insurance and car insurance over the next 2/3 years. Some products which are highly complicated will take more time; however, products like ULIPs which have low distribution margin would eventually move significantly to online distribution models. By 2018, the online insurance industry is expected to grab 25 - 30% of the overall insurance market; out of 50-60 % of volume would be dominated by third party aggregators. Similarly, as e commerce industry expects 23 players would emerge successful in this space.

Online Insurance in India: Challenges :

Online sales channel, while attractive and lucrative has its own challenges. Influencing the customer's buying decision online is a challenging task. That is probably the reason why several industry surveys reveal that online user experience with Indian life insurers has been poor. In Life Insurance, years of efforts by the India's insurance regulator IRDA to ensure insurance companies make their insurance products easily understood by customers doesn't seem to have yielded the desired results. Even though internet insurance market seems promising and geared for greater growth, Indian's regulatory body Insurance Regulatory and Development

Authority (IRDA) has been regulating the industry closely and poses some challenges to the online insurance business. The IRDA guidelines on insurance comparison websites are making the online channel unviable. Owing to issues like lack of transparency of information, lack of standardization of nomenclature of key terms, mosf of the online insurers were unable to make an impact. The aggregators have to overcome some problems before they can be accepted widely. These problems include:

1. It is sometimes difficult to extract enough information to write a policy just from online interactions. Some insurance products like annuity products and index-linked life products are two heterogeneous to be sold online.
2. Aggregators expect revenue from clients which the clients are possibly unwilling to pay.

Clients develop no brand loyalty towards aggregators. In spite of all their drawbacks, aggregators are the closest to automated on- line insurance and has been adopted most widely by online insurance companies.

The year 2012 brought to light many disturbing instances of mis-selling, cheating & forgery been done by brokers. While buying insurance online in India, the decision is entirely of the customer, based on the recommendation of facts and figures rather than that of a sales agent. Many insurance providers also believe that if the customer is literate and has made a choice based on proper research, he/she must be taking well informed decisions in life. This brings companies to the assumption that the life of the person who takes well informed decisions is at less risk, and hence lowers premiums. Even though they generally agree that the internet channel is cost-effective and has great potential in sales and distribution of insurance products, they only offer simple products online for the time being. Besides the regulations, policy-buys in India still require more information and advice compared to more informed consumers in developed countries like UK.

Online sales channel, while attractive and rewarding has its own challenges. Influencing the customer's buying decision online is a challenging task. That is probably the reason why several industry surveys reveal that online user experience with Indian life insurers has been poor. In Life Insurance, years of efforts by the India's insurance regulator IRDA to ensure insurance companies make their insurance products easily understood by customers doesn't seem to have yielded the desired results. When it comes to challenges with respect to aggregation model and selling of insurance policies via third party platforms (such as *Policy bazaar, My insurance club),* the toughest challenge is to get IRDA's approval as it is a strictly regulated space.

Conclusion:

The demand for insurance products is likely to increase due to the exponential growth of household savings, purchasing power, the middle class and the country's working population. The working population (25-60 years) is expected to increase. Increased incomes are expected to result in large disposable incomes, which can be tapped and the insurance sector in particular. Online life insurance sales are expected to grow to 3-5% of the individual annualized new business premium by 2020; and non-life insurance sales are expected to grow to 15-20% of non-life retail business. This means the online insurance sales market in India will be around Rs. 3,500-Rs 6,000 crore for life insurance and around Rs 11,000-15,000 crore for non-life insurance. A total of Rs 15,000-20,000 crore, up by over 20 times. The number of internet users in India is expected to grow from 200 million today to nearly 330 million by 2018, thanks to improving infrastructure, the spread of mobile phones to the most far-flung rural areas and affordable internet facilities. Behaviour in the e-commerce space clearly corroborated that there is an ever growing market for online financial products and online research for insurance is converting into sales. Currently, around 18,000 policies are purchased online every month. Though the given figure only constitutes 2% of overall offline sales, it grew 200% in from 2010 to 2020. However, it's an industry still in the emerging stage and has a long way to go.

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