Current Challenges in Life Insurance Sector

Raj Kumar, research Scholar, rajkumarhsb@gmail.com
Contact-9728157609

Haryana School of Business
GJUS & T Hisar

***Abstract*-The life insurance industry has been made changes in Indian economy Privatization, Globalization and Liberalization. Life insurance industry has opened up the door for private sector. All the insurance companies offer a variety of products and services to the consumers. With the increasing education level, the awareness among people has gone at high levels which become challenge and opportunities for life insurance companies.**

***Keywords*-** Insurance, Product differentiation, Globalization, Bancassurance

I. Introduction

The Insurance sector has emerged as one of the prominent financial service during recent times. The Indian insurance industry gained access to international markets and customers by providing a wide range of insurance products and services.

Global insurance giants such as ICICI Prudential, Bajaj Allianz, HDFC Standard life, Bharti AXA, New York Life, Future Generali, ING Vysya, entered India through tie-ups with Indian Companies both in private and public sectors and significantly expand overseas operations (Krishnan, 2012).
As per new guidelines of IRDA, three broad categories; traditional insurance plan, variable insurance plan, unit-linked insurance plan.

Traditional plans: there are opaque products and can be divided into pure insurance and insurance -cum-investment. Variable plans: according to IRDA guidelines, VIPs will be guaranteed a certain minimum risk of return that is also called the floor rate. Additional benefits may either be attached to the index which is declared upfront, or come in the form of periodic bonuses which will be guaranteed once declared. VIPs will have to conform to the cost caps as ULIPs. That means reductions in the yield will not more than 4 percentage points in the fifth year, coming down to a differences of 2.25% 15^{th} year onwards.
ULIPs: In case of ULIPs, most of the changes took place in 2010.So new rules don't change ULIPs. ULIPs will have to conform to cost caps by observing the maximum reduction in yield. If the limit is breached, the insurer will have to plough back the extra cost.

Minimum cover: IRDA has mandated that the minimum sum assured or death benefit on a life insurance shall not be less than 10 times the annual premium for individuals below 45 years of age. But policies with tenors of less than 10 years, the sum assured limit has been reduced to five times the annual premium. That said, at any point the death benefit will have to be at least 105% of all premiums paid till date.

Higher surrender value: in case of ULIPs the minimum surrender charge will be Rs.6000 in the first year tapering off to be Rs.2000 in the forth year and becoming nil fifth year onwards. For traditional plans, the surrender charge is still on the higher side. As per new rules, one will become eligible fro a surrender value after paying premiums for the two years in case the premium paying term is less than 10 years and three years in case of premium paying term is more than 10 years. The minimum surrender value will be 30% of all premiums paid going up to 90% of the premium paid in the last two policy years; industry will focus on customer retention because in order to give out bonuses to persistent policyholders and insurers will have to make sure they don't have customers surrendering midway.

IRDA's new guidelines- namely linked insurance products regulations and non linked insurance products regulations -aim to make insurance policies friendlier for customers.

Rationale for the present study
Insurance sector will have to focus on producing world class products and services of lower price to become globally competitive. This paper looks at the current challenges and coming direction of life insurance sector.

II. Objective of the study

1. Current challenges.
2. Changing life insurance agents.
3. Changing consumer profile in life insurance.

III. Research Methodology

The Data have been collected and analyze for this research study from secondary published sources viz., newspapers, books, websites and research studies.

IV. Finding of the Study

The life insurance companies are facing Key challenges:

1. De growth in the insurance industry.
2. High regulation- IRDA.
3. Stringent guidelines on expenditure on distribution (agents etc.)
4. Market linked plans which the main stay suffered as the stock market has been volatile.
5. Competitive pressure for Growth among private players.
6. High cost of customer acquisition from distribution channels.
7. Loss of renewal premiums from existing policies due to lapsation or policy surrenders.
8. Claim settlements.
9. Problem related to products.

New technology and a plenty of products will play a vital roles in cost reduction and therefore price of insurance products. Effective branding and differentiation of products and services from competitors' side will create a challenge for life insurance companies. The critical success factor for the life insurance companies is to emphasize on growing customer expectation with demandable products and legendary services. Hence, the insurance firm will have to hire right people with the right attitudes, values and ethics, commitment to excellence and focus on customer service. This would result in growth of insurance sector and expanding the life insurance business across the country. Cope with the joint ventures and to satisfy customer high expectations, life insurance companies will have to overcome regulatory hurdles and customer complaints. Government has announced to increase FDI 49%. Further the new entrants will have to consider the insurance market as a long term investment and maintain clear cut objectives and constant monitoring at all level.

Rural insurance should be seen as an opportunity and a bundle of innovative products according to rural needs and perception and efficient delivery system are critical aspects that have to be developed in order to penetrate the rural markets. Life Insurance Corporation's (LICs) lion share of new business comes from rural and semi-urban markets through mass marketing strategies. Identifying the right agents and the distribution channels to harness the full potential of the vibrant and dynamic rural markets will be imperative.

Life insurance agents

For selling life insurance products and services, agents, brokers and bancassurance are playing a splendid role. Firms are forging relationship with partners for strategic advantage, local partners would have effective distribution channel which can be used to sell life insurance products and services in proper manner. There has been a paradigm shift in the insurance industry from traditional individual agents towards new distribution channels creating insurance awareness and not just selling products.

Qualitative selection of insurance agents by companies is therefore imperative to gain the cutting edge.

A life insurance agent plays a very vital role in one's financial planning and helps to purchase life insurance policy. He does the following for the customer:

1. Help in choosing the life insurance plan which best suits according to their need and product requirement. He is the one who is informed about the product review and history and after doing a successful need analysis of financial requirements. He is one who will be able to guide and help to select the product that one need to purchase and why.

2. Help people to apply for the policy by fulfilling all the rules and norms of life insurance policy.
3. Play role as Liaisons between the insurer and prospective customer to fill up the form file the necessary documents and do the medicals, if any. Since he is a representative of the insurer to the customer and vice versa, he is the one who is the connection between the two and hence plays a very vital role.
4. Once the policy is enforced, the Life Insurance Agent is the one who is responsible for ensuring that the renewal premiums are paid on time. This is done diligently by most sincere life insurance agents as their renewal commissions are based on the renewal premiums paid by the customers.
5.Policy servicing- address change, nominee change, fund switch, partial withdrawal, top up, loan, etc. are usually taken care by the life insurance agent because
a. They need to be in the good book of the customer so that he would recommend him to another prospective customer or take another policy from him
b. And also because they are the connection between the insurance company and the customer and represent each in front of the other!

6. Filing the claim
a. In Maturity Claim- the Life Insurance Agent needs to ensure that the cheque reaches the customer well before time so that the amount can be claimed on time.
b. In Death Claim- it is the duty of the Life Insurance Agent to help the nominee to file the claim and ensure that the death benefit be paid with least confusion and with maximum efficiency.
c. In Surrender Claim- the Life Insurance Agents helps the customer to complete the process after understanding the reason for doing the same.

Bancassurance is another effective channel in countries like Italy, France, and Spain. Insurance companies have taken advantage of customers' through selling their products successfully.

Bancassurance model has become an important distribution channel in India for selling insurance products especially in the rural and semi urban sectors.

Public sector banks are playing a leading role in this. Other distribution channels like Call centers, direct marketing and the internet are growing and ensuring direct contact with customers. It is helping firms to acquire, retain and build loyalty among customers while lowering transaction costs.

Changing consumer profile:

A high changes in consumer awareness putting immense and unavoidable pressure on life insurance companies. The industry underwrites pure risk in products and leaving investment decisions to the policy holders. The market is growing by a wide range of products from different players. In such a global scenario the differentiators among the players are the products, pricing and servicing. Consumers are getting more awareness and are actively managing their financial affairs. To satisfy the myriad needs of the customers, insurance products would need to be customized. Customers today also seek products that are offering flexible option, preferring product with benefits unbundled and customizable to suit their diverse needs.

Today consumers are interested in those products which help to build wealth and provide retirement income. This is necessary for a demand of life insurance products. For selling traditional insurance products such as individual whole life and term will remain popular, sale of products like single premium, investment linked, retirement products, variable life and annuity products are on the incline. Insurance companies will have to constantly innovate in terms of product development to meet ever changing consumer needs.

In the competitive global market, the main focus of life insurance would be on customer satisfaction, quality advice, product choice along with the policy servicing and claim settlement and service should focus on enhancing the customer experience and maximizing customer convenience.

V. Conclusions

Growth in the insurance sectors is evident from a large variety of innovative schemes offered by life insurance companies showing an increasing demand of the customers. For growing market with the cut throat competition, the life insurance company should offer new products with low price options. India is among the most promising emerging insurance markets in the world. Insurers will need to increase efforts to design new products that are suitable for the market and make use of innovative distribution channels to reach a broader range of the population.

The Competition will surely cause the market to grow beyond current rates, create a bigger "pie," and offer additional consumer choices through the introduction of new products, services, and price options. Yet, at the same time, public and private sector companies will be working together to ensure healthy growth and development of the sector. Challenges such as developing a common industry code of conduct, contributing to a common catastrophe reserve fund, and chalking out agreements between insurers to settle claims to the benefit of the consumer will require concerted effort from both sectors.

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