

Performance of Private Insurance Players in India

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Swati Jain, a fourth semester management student of IBS, Jaipur just completed her last class session on Customer Relationship Management (CRM). She had back-office operations experience of over seven years with couple of ace private insurance players in India prior to her joining the MBA program at IBS. She was wondering why she never thought of CRM strategy while she was working and for that matter did these companies where she worked ever give due importance to good CRM practices? If right CRM strategy were in place, these private players in insurance business would not have witnessed a sharp fall in business. The Unit-linked Insurance Plans (ULIPs) that attracted clients initially lost their sheen later. Why? She wondered.

Introduction

Insurance industry constitutes one of the major segments of Indian financial market and it plays a predominant role in the process of financial intermediary in India. On 1st Sept 1957, Life Insurance Corporation of India (LIC) was formed as first life insurance Company in India and it remained the only player till the year 1999 when A. Malhotra Committee recommended "Privatization" and Insurance Regulatory & Development Authority (IRDA) was formed.

From the year 2000 onwards, Indian insurance industry started witnessing a metamorphosis: major companies across India and world over saw a big opportunity round the corner and the likes of ICICI, HDFC, SBI, Kotak, Brila, TATA, Reliance, Sahara, Prudential, AIG, AVIVA etc and other such banking and Non-banking Financial Institutions (NBFI) started to make a foray in to the industry.

Background and Declining Trend

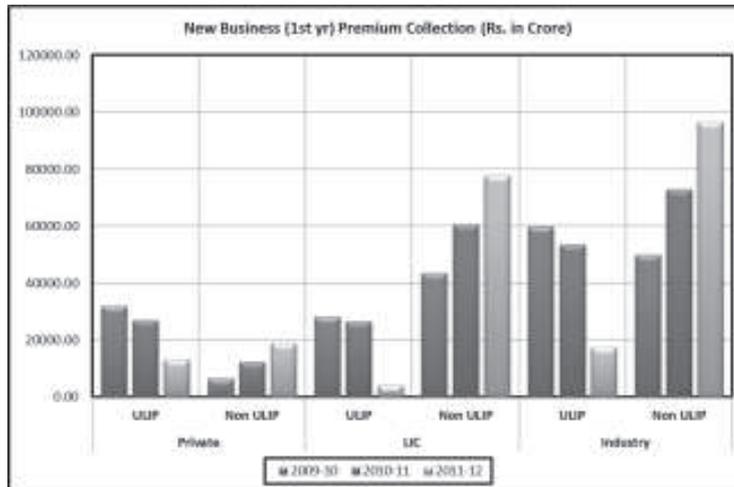
Innovative products and marketing strategies were launched by the new entrants (private insurance players). This was the time when clients were introduced to ULIPs and the demand for unit-linked policies saw a sharp surge. Even LIC felt the heat and got in to devising new (unit-linked) offerings. Sadly, for insurance industry this did not last long for various reasons: reforms introduced by IRDA; tough competition; high credibility and trust factor associated with LIC; lack of customer focus; false promises regarding returns and last but not the least – a myopic vision where concern was about making a transaction (selling a policy) rather than establishing a relationship. There was another practice and that was of encouraging the policy holders to surrender their existing policies and invest in a new one and surprisingly this was done by executives of insurance companies to meet their targets for new policies. Consequently people began surrendering

their policies and the corpuses shrunk beyond expectations. Citing a special mention of Unit-linked (also called market-linked) policies, IRDA reports provide the following trends (Illustration I - IV):

Illustration I: Extracts from IRDA reports for three consecutive fiscals:

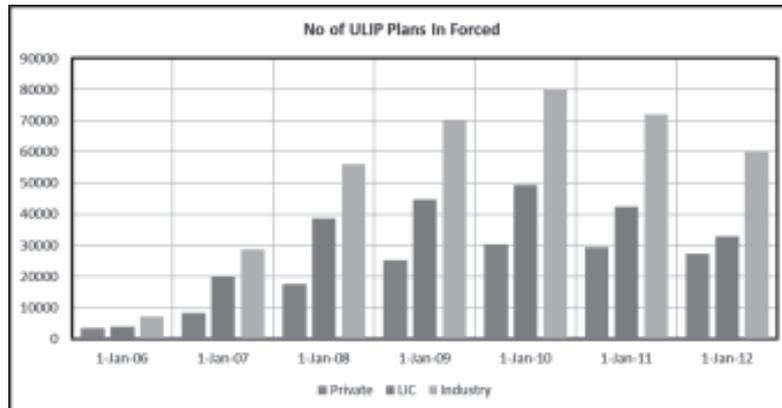
IRDA Annual Report 2009-10 (Page No. 15, Section – Premium, Paragraph No. I.3.8)	Unit-linked products (ULIPs) witnessed 27.44% increase in premium income from Rs.90,647 crore in 2008-09 to Rs.1,15,521 crore in 2009-10. Accordingly, the share of unit-linked products in total premium increased to 43.52 per cent in 2009-10 as against 40.87 per cent in 2008-09
IRDA Annual Report 2010-11 (Page No. 14, Section – Premium, Paragraph No. I.3.7)	Unit-linked products (ULIPs) witnessed 5.64% decline in premium income from Rs.1,15,521 crore in 2009-10 to Rs.1,09,002 crore in 2010-11. Accordingly, the share of unit-linked products in total premium considerably declined to 37.38 per cent in 2010-11 as against 43.52 per cent in 2009-10
IRDA Annual Report 2011-12 (Page No. 23, Section – Premium, Paragraph No. I.3.7)	Unit-linked products (ULIPs) witnessed 36.12% decline in premium income from Rs.1,09,036 crore in 2010-11 to Rs. 69,650 crore in 2011-12. Accordingly, the share of unit-linked products in total premium considerably declined to 24.26 per cent in 2011-12 as against 37.38 per cent in 2010-11

Illustration-II: ULIP & Non ULIP New Business Premium Collection.



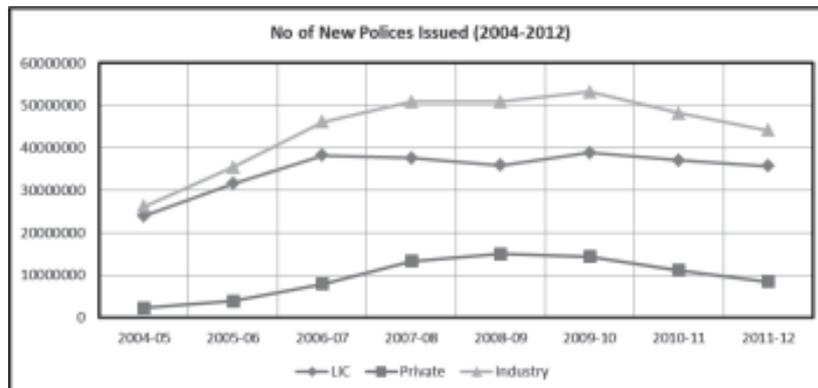
Source: Compiled from IRDA Annual Reports of 2009-10, 2010-11, 2011-12

Illustration-III: Number of ULIPs in Force



All these figures are taken from IRDA Annual Report 2005-06 to IRDA Annual Report 2011-12 under section "Statement" from table "INDIVIDUAL BUSINESS (WITHIN INDIA) - BUSINESS IN FORCE (NUMBER OF POLICIES)"

Illustration-IV: Number of New Policies Issued



Source: IRDA Annual Reports from fiscal 2005-06 to 2011-12 under New section "Policies" and from Table "New Policies Issued – Life insurance"

Understanding the Issues

Swati Jain believed that the falling trend after 2010 could largely be attributed to disconnect of the companies from their customers. The failing relationships not only led to a drop in sales but also took away people’s faith in the industry. Parul decided to delve deeper in to the problem and in the process interviewed some senior executives in the industry who had substantial experience and had witnessed the trend discussed earlier. An extract of her findings is illustrated in the grid (Illustration V) below:

S No	Questions	Respondents*		
		Respondent I	Respondent II	Respondent III
1	Since how long have you been associated with the industry and with how many companies so far?	7 years / 3 companies	12 years / 1 company	6 years / 2 companies
2	Was there more emphasis on making sales / transactions rather than establishing relationships?	Earlier the focus was on number of policies but perspective has changed in favor of retention and renewals. This is the reason companies are now focusing on customer engagement programs and emphasizing on the contactability	Yes, there was a time when we were into mad expansion; it was in year 2006-07, with only focus on expansion of branches and increase number of transactions. Rural vertical integration, opening new urban branches, opening touch points at several small villages known as spoke branches. There was no sign of CRM at that point. In the very next financial year whole world was into deep crisis and India also got affected and insurance industry was not an exception. Company turned its strategy defensive, in the name of cost cutting and financial crisis; several rural and urban branches were closed. The change was bitter customers lost their faith, level of dissatisfaction increased too much, no. of complaints increased, and the entire thing became difficult to manage. This impacted the whole insurance industry badly. It was total failure and mismanagement due to lack of research and vision	Earlier yes but now things have changed entirely

3	Does the company make efforts to develop long term relations with the customers? If yes, what are these efforts?	We are focusing on customer relation management. There is a separate team that visits customers and try to build a relationship by serving him for his policy related issues. Also, there are various programs running from time to time to engage the customer	Today there is a whole gamut of products are available to invest into so in order to attract customers we should keep on enhancing our services and it is a continuous process. Companies have more touch points today like – any customer who want to deposit their premiums, they have ample options. We have a very sturdy software system in place to offer the best of services to our customers	Yes, we have segmented our customers into two groups i.e. HNI customers (annual premium more than Rs. 50,000/-) & non-HNI (annual premium less than Rs. 50,000/-). Central office sends HNI clients birthday greetings on their mobiles, personalized calendars are sent to these customers. In our Health plans, if customer has completed 5 years, we provide some discounts on 6th year premium for showing loyalty with the company
4	Are some efforts made to derive more business out of existing customers? What efforts are made?	No such special effort	Yes, we are more focused on providing better customer services to existing customers and due to this we are able to gain more business from existing customers. Facilities like online premium deposit options, online documents submit options are available. Even new policies can be bought online	We send timely reminders to our customers regarding due dates which is part of our KPI and have improved on the response time for resolving queries. For dissatisfied customers, we make all possible efforts to retain them by taking care of their grievances
5	How important is the customer feedback? And, what is done regarding this?	Outsourced to some agency for customer satisfaction survey	Yes it is very important for us. In early days central product team use to design new plans on the basis of market behavior but these days new plan (product) is released on pilot basis in few selected locations and then intensive feedback is taken and only if it satisfies certain specified percent of customers, it is launched else necessary changes are made on the basis on customer's feedback	It is very important for us. In fact, few of our processes are based upon our customer's feedback

6	Were the customer complaints and suggestions incorporated to make products and services better?	Yes, we have launch some products specially for Defense channel	Yes, I have already answered this in my previous question. Earlier supplier use to design the products and plans but today our customer and their needs are given more importance and accordingly our new plans and services are designed.	Yes, as I stated earlier, we address all the complaints very carefully and we do make necessary changes in the process itself in required, e.g. SMS services to our customer has begins on the basis of a complaint
7	A lot of clients surrendered their policies in the recent past and the reason cited mainly was poor relationship management practices, lack of clarity in explaining the plan. Your comments.	If policies were sold as per customer's need, the situation would have been different but the irony is that policies giving higher commissions to agents / intermediaries are pushed	This used to happen in the past but a lot has improved since then	I agree with the statement but things have changed for better now. Even prospects / customers are more aware and do not get carried away by false promises made to them. There used to be many such complaints earlier regarding false promises and guaranteed returns on investments
8	Do you believe that if companies followed good CRM practices, things would have been better?	Much better but a lot of consistency is required. CRM is not a one-time activity, it goes on.	Yes	Yes. Things would have been much better if companies has followed proper CRM practices and reviewed it from time to time but I believe it is never too late
9	What is the company focusing on more: adding new customers or retaining the old ones?	Retaining the old ones	Both are equally important	We are focusing on both. We believe that new business helps increase market capitalization and retentions helps in increasing profits
10	What is being done to delight old customers?	Increased visits to customer's place for building relations	Better products, more need based selling	We greet them on their special occasions and ensure that we remain update about their preferences

11	<p>Has the company segmented the clients on certain basis (say premium clients)?</p> <p>What extra is being offered to the clients that give very good or above average business?</p>	No	<p>We follow uniform service practices to all kind of customers, earlier we had a department catering to "priority" clients but that has now been dissolved as we believe that all customers are equally important</p>	<p>As stated earlier, we have segmented clients as HNI & non-HNI. We try to keep up with turnaround-time (TAT) to ensure good response time</p>
* Respondents shared information on condition of anonymity				

The feedback reinstated her belief that even though there were other forces that put the insurance in rough weather, lack of CRM strategy was one of the major ones.

Questions

1. If good CRM practices were in place, would it have benefited the companies substantially? How?
2. Should there be a classification amongst clients – priority and non-priority or on any other basis? If yes, how does it stand to benefit the clients?
3. Do you think the industry has a future in India? What all should be ensured by these private players to not only remain afloat but ensure healthy revenues?
4. According to you, in today's times, an established insurance company should give precedence to retention and up-selling or adding new clients? Give reasons.

Summary of Case Study

The base of present study (case) is life insurance and more specifically life insurance products related to equity (Unit-linked Insurance Plans also called ULIPs or market linked plans) so as to attract the clients by conveying and convincing them of dual benefits: insurance and growth of money. Such ULIPs changed the perception of insurance in the last decade or so from something that safeguards your family in the event of mishap to something that promises growth of investment also. Thus from pure risk cover, the focus of companies and clients/prospects shifted more towards growth and return on premium and this found many takers initially due to the dual benefits offered by almost all insurance players.

Eventually, competition started creeping in and companies started setting bigger and unrealistic targets for their sale force without keeping in to due consideration that this would lead the sales force to sell the plans by making commitments that may not be fulfilled. The crucial aspect: building of healthy buyer-seller relationship was ignored.

The focus of this case study is Customer Relationship Management and it has been elaborated through real life examples / interviews of senior executives. In this case highlights how private players got a golden opportunity when Government of India (GOI) decided to allow them to begin insurance business in the country. Initially everything was good but gradually due to poor CRM practices these companies, even though they are big names, started losing faith and business from their customers. This was a phase where 'making a transaction' superseded 'making a relationship'.

Later on, IRDA was prompted to introduce some guidelines to protect and secure the interests of investors. These amends and growing disconnect with clients and prospects led to decline in sales of ULIPs and hence the revenues. The statistics quoted in the case substantiate this statement.

Teaching objectives and target audience

Teaching Objectives:

1. Significance of Customer Relationship Management
2. Implications of customer-centricity (or the lack of it)
3. Crucial aspects of service quality like reliability, assurance
4. Service recovery

Target Audience:

1. Employees in Insurance Business at all levels specifically those in sales, marketing and strategic levels

2. Students studying management or courses related to Banking, Finance and Insurance
3. Employees and other stake holders in service industry

Teaching approach and strategy

Question that can be discussed in class room:

1. What exactly went wrong that only ULIPs were getting surrendered rather traditional plans?
2. What initiatives were required to improve connect and relationship with existing clients?
3. What initiatives do you suggest for recovering from the situation?

Group/Student Assignments:

1. Conduct a small survey among people about the knowledge of insurance
2. Students can study prevailing practices in sales and customer relationship management
3. Students can have a discussion on annual reports / statistics released by IRDA and try to understand the trends
4. Students can collect 5 to 10 life insurance companies and study their vision and mission statements to discuss what these companies stand for and where they want to be in future and how.

Discussion / Analysis

1. If good CRM practice were in place, how would it have benefited the companies?

Answer: A good CRM strategy helps a company to build a strong & lasting relationship with their customers. This would have helped in following ways:

- (i) A positive word-of-mouth
- (ii) Selling to an existing satisfied customer / client is much easier and involves much less cost as compared to making a new client
- (iii) There would be early warning signals and companies could have taken timely corrective measures
- (iv) There would have been scope for continuous amends and improvements as per the requirements
- (v) Good CRM practices help improve service quality and therefore has a direct bearing on customer satisfaction

2. Should there be a classification amongst clients – priority and low-priority or on any other basis? If yes, how does it stand to benefit the clients and the company?

Answer: Yes, there should be a classification amongst clients. There is a cost to managing the accounts of clients. The clients contributing big via premiums should be entitled for some additional benefits or privileges viz. special customer desk, dedicated relationship managers, added discounts & bonus etc. This is followed by various banks and airlines as well but due care should be taken that service quality does not suffer for any of the clients as there delivering what is promised or above is will increase satisfaction of clients and ensure lasting relationship.

3. Do you think the industry has a future in India? What all should be ensured by these private players to not only remain afloat but ensure healthy revenues in the years to come?

Answer: Yes, industry does have very bright future as there is a huge populace in Urban and Rural areas that remains to be educated and catered to. The insurance players should educate the prospects about the importance of life cover and its benefits to dependents rather than positioning the products as a tax saving or an investment instrument.

4. According to you, in today's times, an established insurance company should give precedence to retention and up-selling or adding new clients? Give reasons in support of your answer.

Answer: Retaining existing clients as well as adding new once is equally crucial for the sustenance and growth of an organization so it is not a matter of precedence. If the focus is only on retention, the competitors will eventually have a bigger pie and if the existing ones are not retained the efforts will go in vain (similar to a situation where a gardener is plucking fruits and storing in a bag that has a whole at the bottom so even if the effort is there, it is futile)

Note: IRDA has released proposed amendments on 25 Aug. 2011 which are stated as Investment Regulations under "InvReg - Comparison of Current Reg& Proposed Amendment - 2011-12"