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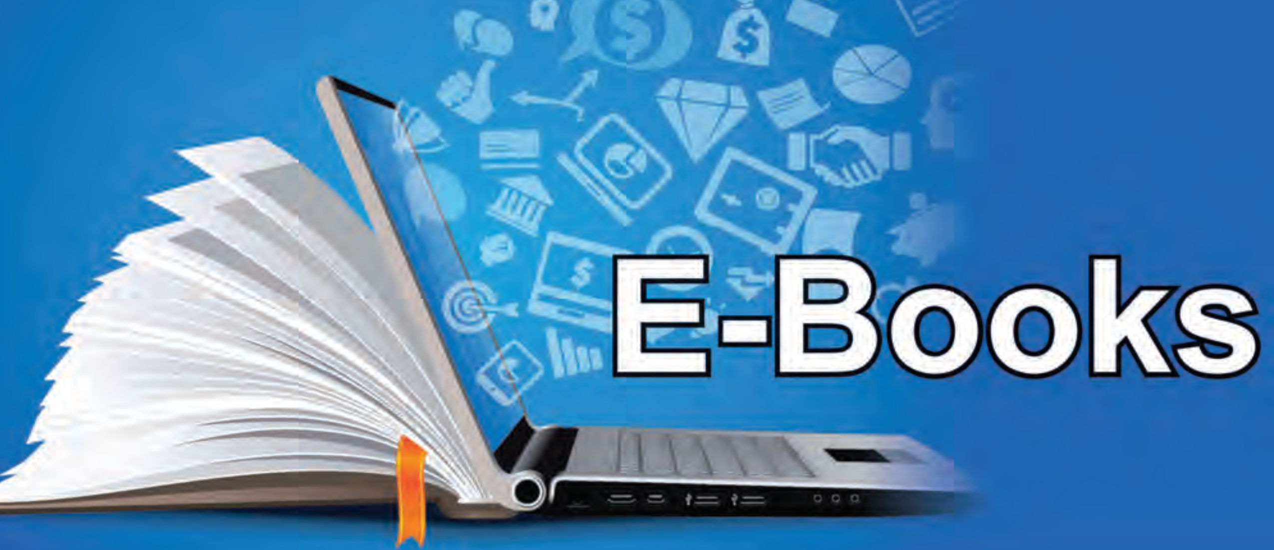

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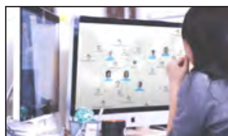

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EDITORIAL

As we go to press, we are at the beginning of another financial year, rife with its share of hopes and trepidations. The worst days of the Covid era are perhaps behind us. But a new global crisis has dawned suddenly. The Ukraine crisis is set to shake up the global balance of power. Its longer term implications remain to be seen. As we embark into 2022-23, it may be time to look to the future with new eyes. The pandemic drove home the harsh reality that 'black swan' events can arise at any time without notice – the need of the hour is to strive for resilience. We need to build households, communities and societies that can continue living, with their integrity intact, even in the face of massive threats. This calls for making insurance a way of life.

In this issue, we bring you a wide menu of articles, some of which will introduce you to entirely new concepts. Welcome to a world of fresh exciting reading.

The theme for July-September 2022 issue of 'The Journal' is 'Changes in Insurance Business Post Covid 19'. Enjoy Reading.

Editorial Team

Return and Risk in Life Insurance : Comparing the Payoffs in Life Insurance Policies

This article seeks to encapsulate some core insights from a paper that was presented by me [with Dr. R. Parchure] at the First Global Conference of Actuaries held at Delhi in 1997. It subsequently became one of the foundations of my doctoral dissertation, 'Life insurance as a financial product'.

> "The productions of the human brain appear as independent beings endowed with life, and entering into relation both with one another and the human race. So it is in the world of commodities with the products of men's hands."
>
> Karl Marx – Capital
>
> Once a product enters the market, no-one has any control of it, and it sets off on a course which appears to be governed by supra-human laws. The market is a place where the social relations between people get conceived as relations between things.

Insurance was present before the advent of human life on this planet. It is a principle of natural providence – Mother Nature's way of coping with entropy. While other species of nature imbibe and live this principle instinctually, we humans have made it a part of the social fabric by creating a story [a narrative] around it. It is one among several such narratives [like marriage and family,

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democracy, god and religion…] that have helped to create the course of human civilization.

Insurance may be succinctly defined as "Risk Transfer" through "Risk Pooling." It has two principles at its core. First of all there is ***Risk Pooling.*** The term 'Risk' comes from Statistics – it denotes dispersion / deviation from expected [mean] value of a distribution. There are two kinds of dispersions [risks].The first kind is where a variable takes multiple values [e.g. stock prices]. It is called stochastic/ statistical risk, and the most popular way of addressing it has been diversification [spreading one's eggs in different baskets]. The second type is a distribution with only two outcomes [e.g.Binomial distribution]. When one of these outcomes causes a loss, we get 'Pure Risk.' Such risks are most appropriately addressed through pooling [putting all eggs in one basket].

A Case

Consider a risk situation like the chance that 'I will be hospitalized next year'. It is possible to estimate the likelihood of *someone like me* being hospitalized – say it is 5 per 1000. This does not however help me in anyway because I have no way to know whether "I would be one of the 5'. In statistical terms this implies that the variance of a distribution where 'I' am the only exposure being considered is infinite. We term this state as 'Uncertainty' [I not only do not know but cannot even predict whether I will be hospitalized]. However, when the chance that I may be hospitalized becomes part of a pool [say of 1000], the dispersion is no longer infinite but takes a finite value. [from 0 to 1000]. Further, as the pool's size grows larger , [from1000 to 1000000], the dispersion or variance would get much smaller - The loss impact [costs] of my hospitalization can be transferred to a pooled fund, and my share to such fund can be determined quite accurately [in other words, priced], based on a more precise estimate of the risk that I bear.

Pooling and allocation of risks forms the basis of the Insurance Industry. It is made possible due to another principle – ***Mutuality, or 'Collective Collaboration'*** among members of a community. While pooling enables determination of how much one should contribute to a pool, it is mutuality which makes 'empowerment' possible in the true sense – it places the massive power of the community in the hands of individuals and enables the latter to use that power to transform their destiny.

A few centuries ago, some people figured out a way to build a business based on the above principles. They designed wager contracts [based on the probability of loss of cargo at sea or loss of property through a fire or loss of one's life….] These contractual arrangements which emerged and flourished in the womb of the industrial order have become the 'abode of support and succor' to which we are invited to turn when an unforeseen tragedy hits us or the winter of lire looms on the horizon. An elaborate legal edifice has been set out to give credence and propriety to these contracts – instances are the concept of 'Insurable Interest', to distinguish them from other wagers; the principle of 'utmost good faith,' to protect the house from insureds who try to take advantage through non - disclosure and mis-representation; and the requirements of solvency and capital adequacy to ensure that contracts are not dishonoured on grounds of lack of financial soundness.

Economic theory postulates that rational individuals would buy insurance contracts to optimize their lifetime utility of consumption. They would thus be willing to pay more than the 'fair' price of insurance [the pure risk + loading element] if they perceive that the 'disutility' of an 'uncertain' loss [the 'primary and secondary burdens of risk'] exceeds the disutility of a certain loss [the insurance premiums they pay]. In such a case, the gains from insurance [risk indemnification] is seen to be more than its costs. In reality however, individuals are believed to be 'irrational' in that they ask why they should invest in something now for a risk that may never happen in the future'. Nobel laureates, Tversky and Kahnema have developed a model known as 'prospect theory,' which explains this phenomenon as follows: People ordinarily have a rationalisation process in which, when evaluating an event with low probability [like a flood or a major fire, they tend to round its probability of happening down to zero. This arises from a psychological state that makes it difficult to accept

that something like this may happen. Conversely, when an event is perceived as having high probability of occurrence [for instance Cov] they tend to round off its probability to one – in other words, they exaggerate its likelihood to a certainty. This is the reason why people are often reticent to buy many General Insurance contracts –they view such purchase as a loss [no value for money] until an event actually happens in the neighborhood. 'Insurance needs to be sold' either through hard pitch or some element of compulsion or linkage with another consideration [like a loan]….

Life insurance contracts are quite different. For reasons relating to the nature of mortality risk [for instance, its a stable function of age], these are long term [multiple year] contracts with a level premium feature. By definition, they contain an insurance [term] and investment [cash value] element. Life insurers were able to design contracts in which the problem of paying 'something for nothing' was addressed by altering the pitch – it was now, 'we offer you a bundle that provides both protection against death plus an avenue of savings that is safe plus…..'

There was however a catch here. The moment one speaks about savings element in life insurance, it is difficult to avoid the issue of the rate of return that is earned on a life insurance policy – how it compares with other financial instruments. Life insurers have argued for decades that 'insurance is about protection' and not about making money through high returns. People however began to notice that the money they pay for their insurance protection is only a small fraction of their premium.

Consider a non-participating endowment assurance taken at age 30 for a term of 20 years. Let us suppose that the quoted premium for this plan is Rs 33.20. The cost of the term component is about Rs 2.5; the loading for expenses is about Rs 11 and the balance Rs 18.7 constitutes the savings component (cost of survival benefit) of the premium. A discerning and shrewd customer would ask the obvious question – separating the term component from the office premium, the difference (Rs 30.70) accumulates over a period of twenty years to Rs 1000 at a rate of just about 4%. Why should someone buy an endowment, which offers such a low rate of return when one could possibly earn more than double by investing elsewhere?

The life insurance industry has come up with a ready answer to the above problem. It designed a new kind of Endowment plan where for same age and term the premium was increased to say Rs 55 per thousand sum assured. The latter kind of policy has been popular in Indian and other markets. The key difference from the earlier version is that the new plan involves participation in the profits of the insurer – they are known as with profits [Par] policies. The price to pay was a hefty bonus loading.

"The actuary Brian Corby provided the rationale of participation (share in profits) as follows:

"Some two hundred years ago, at the beginning of life insurance, the major uncertainty was the rate of mortality. The solution adopted was to charge excessive premiums Of course they did not know that they were excessive in advance so that solvency was assumed, and then, when sufficient experience was accumulated to assess what the premiums should have been, to return the excess or some of it to policy holders by way of bonus additions. This was the origin of the traditional with profit policies we issue today…"

With profits policies that offer an attractive bonus are feasible for a company with a long legacy, which has built a substantial life fund over the years and is a able to generate sizeable surplus year after year, when a company has been able to earn a surplus. A company which is still relatively young and building its base may not be able to generate such surpluses, primarily due to the limitations posed on account of large new business strains in earlier years. Comparative bonuses may be payable only by drawing on shareholder capital. Further, the sharing of surplus with policy holders may put a dent on dividends to share holders. Many private sector companies thus have a product portfolio largely driven by Term Insurance, Non - participating savings products and Unit linked products.

Given that the value creation process of the industry is largely in the form of Pay in [Premiums] – Pay-out [claims and other terminal benefits], the principal form of evaluation and sales pitch for different 'plans' is to make a comparison of their rate of return and to some degree, their riskiness. Selling of life insurance products has in many instances been reduced to 'illustrations selling'.

The problem faced by insurance practitioners, especially those in the sales force, including web aggregators is how to scientifically and precisely determine the rate of return on a financial product which involves a payment that is contingent on death or maturity. For instance, how do you compare the returns on two term insurance plans or between two plans which have varying mix of term insurance cover and savings element.... How to decide which plan is more efficient.. The calculation of return and risk for such plans require determining a rate of return which precisely factors the death risk.

Determining the Rate of Return and Risk

It is possible to calculate such returns. It can be done by extending the Mean- Variance approach, which has been largely developed in the context of capital markets, to a 'state of nature' contingent asset like life insurance. This implies that we need to compute the mean and variance of returns for life insurance [one may also compute the internal rate of return or IRR].

A formal model for the purpose is given below for a multiple period term insurance policy

Model

Let **P** be the level annual premium paid at the beginning of each year of the policy. Let **S** be the pay-out [Sum Assured + bonus or additional benefits] being made if death happens during any of the years of the term. Let $\delta_1, \delta_2, ...\delta_n$ be the objective probability of death, for each year of the term, the values of δ_i being obtained from the standard mortality table being used by the industry [we can take the IRDA's table of standard rates 2012-14, given in its latest Annual report, as the reference table]. Let **1 -** $\Sigma\delta_i$ be the probability of survival. Note that δ_1, δ_2.. etc. are conditional probabilities i.e. contingent on the individual being alive at the beginning of the respective year.

We would get a series of n period returns which are as follows

Returns on Death

R_1 : Value of r, giving [– P + S/(1 + r) = o]; with probability. δ_1

R_2 : Value of r giving [– P – P/(1+r) +S/(1+r)^2 = 0] ; prob. δ_2

.. ..

R_n : Value of r giving [- P ...... – P /(1+r)$^{n-1}$ + S/(1+r)^n = 0]; prob. δ_n

R_s : -1 by definition , with probability (1- $\Sigma\delta$)

The values of $R_1, R_2 .... R_n$ above, are the Internal rates of return (IRR s) that have to be obtained for each year of the term. The IRR s can be found using an MS Excel spread sheet. The P s are periodic inflows (of premiums) that are made at the beginning of each year while the S values are the outflows each with a given probability. The format for conducting the iteration is shown below

Iteration for derivation of 'R' s

Year	R_1	R_2	R_3	……..	R_N
	- P	- P	- P		- P
	S	- P	- P		- P
1	**IRR of above**	S	- P		- P
2		**IRR of above**	S		…..
3			**IRR of above**		….
…					- P
…					S
N					**IRR of above**
Survl. N yrs					**- 1**

Once the IRR s for different years are obtained, they are multiplied with their respective probabilities of death and summed up to derive the mean return $\mathbf{R_M}$ as follows:

$R_M = R_1\delta_1 + R_2\delta_2 + \ldots\ldots + R_n\delta_n + (1 - \Sigma\delta_I) R_s = \sum R_i \delta_i + (1 - \Sigma\delta_I) R_s$

The Variance of return is given by

$\sigma_M^2 = \delta_1 (R_1 - R_M)^2 + \delta_2 (R_2 - R_M)^2 \ldots + \delta_n (R_n - R_M)^2 + (1 - \Sigma\delta_I)(R_s - R_M)^2$

The internal rate of return is a little different from the mean rate of return. While the latter is the mean of many single period returns, the IRR is the yield for the entire term of the contract. The IRR may be found out as the solution (r) of the following probabilistic equation:

$- P + \delta_1 S / (1+r) - P + \delta_2 S / (1+r)^2 \ldots - P + \delta_n S / (1+r)^n + (1-\delta) 0 / (1+r)^n = 0$

It would be relevant to consider the role of mean rate of return and IRR. If one is looking only for return of a life insurance policy one may consider the mean return or the IRR. If one seeks to consider its portfolio contribution, it would also be relevant to look at is relative dispersion, or the trade off which its risk bears to its returns. This is captured by its coefficient of variation, given by the ratio of its standard deviation to mean of return: We thus have $\mathbf{CV} = \sqrt{\sigma_L^2} / \mathbf{R_L}$

For given a rate of return, the higher the value of this coefficient, the less attractive the policy may be when considered as an investment.

Endowment Assurance

An Endowment Assurance contract is a combination of a Multi-period Term Assurance and a Pure Endowment Contract. Here the Sum Assured is payable if death occurs during the term of the contract (as death benefit) and alternatively, if the individual survives to the end of the term (as Survival Benefit).

The rates of return for death during the period i.e. $R_1, R_2, \ldots R_n$ can be worked out the same way as under level annual premium Term Assurance. The Survival benefit is different. It is defined as

R_s = value of r, giving $[- P - P/(1+r) - \ldots - P / (1+r)^{n-1} + S / (1+r)^n] = 0$; with probability of $(1 - \Sigma\delta_I)$

The average or mean rate of return is:

$R_M = \delta_1 R_1 + \delta_2 R_2 + \ldots + \delta_n R_n + (1 - \Sigma\delta_I) R_s$, The variance is

$\mathbf{V_L = \delta_1 (R_1 - R_M)^2 + \ldots + \delta_n (R_n - R_M)^2 + (1 - \Sigma\delta_I)(R_s - R_M)^2}$

An Illustration

Let us give an illustration of how return and risk has been determined, using the above model. We have presented five plans, all these plans are for an individual aged 30 and for assume a term of 20 years. The mortality table used for estimating the mortality adjusted risk of return is the IRDA table of standard rates [2012-14] given in the annual report of IRDA 2020. The plan scenarios in the plans are indicative and not designed to actually measure the rates of return or risk of any of the existing plans. The plan details are given below:

Plan 1 : A regular premium Term Insurance plan for Sum Assured of 30 lakhs, with a premium of Rs 4800 per annum
Plan 2 : The same Term Assurance plan for Sum Assured of 30 lakhs but with a Single Premium of Rs 52000
Plan 3 : An Endowment plan for Rs 1 lakh, with a guaranteed addition of Rs 4500 per year with an annual premium of Rs 5300 per annum – it is assumed that the addition begins from the start of the plan, so that even if the life assured dies in the very first year, she would receive Rs 104500.
Plan 4 : The same Endowment plan for Rs 1 lakh, with guaranteed addition of Rs 4500 per year, beginning from the start of the plan, with a Single Premium of Rs 55000
Plan 5 : A Money back plan for Rs 1 lakh with a provision for payment of Rs 125000 as a death benefit and Rs 100000 as sum assured on survival. The premium paying term is only for 15 years and there is provision for 20% return of sum assured at the end of the fifth, tenth and fifteenth year, and balance 40% on the date of maturity. There is a guaranteed addition of Rs 42 per thousand sum assured, which begins right from inception, so that a person dying in the very first year would receive an amount of Rs 129200 [125000 + 4200]

The derivation or the mean and variance, which indicate the return and risk of each plan, is shown in the appendix.

The end results are given below

Mean, Variance, Standard Deviation and Coeffecient of Variation of Returns

	Plan 1	Plan 2	Plan 3	Plan 4	Plan 5
Mean return	-0.293	-0.878	0.079	0.068	0.101
Variance : σ^2	381.94	3.383	0.398	0.0009	0.230
Std Dev : σ^2	19.54	1.839	0.537	0.0300	0.480
Coeffecient of variation [Std Dev/ Mean]	-66.59	-2.10	7.58	0.44	

Certain quick observations may arise from looking at the above. It is obvious that the returns on a Term Assurance Policy are negative, if we assume the standard mortality table [the objective estimate of mortality] as the numeraire for determining the mortality risk adjusted rate of return. This means that for a payoff of return to be positive for a customer, he or she should have a subjective level of risk aversion / anxiety/ panic [as one may choose to term it] of death which is much above the actual objective estimate of death. For instance, if an individual is so worried that he assumes that his probability of death would be around 50% more than that which is assumed in the IRDA, he would receive a positive payoff of around 5.3%. We also find that single premium term assurance policies yield higher negative returns for the policyholder, but the degree of riskiness [as given by the coefficient of variation] is lower. The savings plans could provide fairly attractive rates of return when compared to Bank FDs, if we assume that the insurer is able to offer a schedule of benefits for premiums as illustrated above. We have not included ULIP Plans in our illustration because it would be more complex and also a little cumbersome to integrate their stochastically distributed returns on investments [the determinants of NAV] with mortality adjusted returns, as discussed above.

We leave it to our readers to explore how the above approach and method can be used to calculate the returns and riskiness of various life insurance plans that are available. We believe that any high school level student with basic financial literacy and numerical skills and an elementary knowledge of MS Office Tools could calculate them.

This raises a question: what about a life insurer who is unable to offer returns that are comparable with other financial assets? Given that 'the pay-out to pay-in [premium – benefits] payoffs form the fulcrum around which many life insurers' business models are designed, the imperative to offer high returns that are also guaranteed can be a daunting prospect. Things can become even more difficult if the investment environment [interest rates and stock prices] is fraught with volatility.

In the past many years, life insurers have perhaps been able to cope with the Damocles sword that looms above, because of the way the business is solicited: Firstly, since the exact schedule of benefits and premiums of most plans of life insurance are not easily available in the public domain [e.g. in Google space], it is not easy to get the requisite information for making deeper comparisons among plans. One has to ordinarily depend on the information [along with the attendant pitch] provided by an insurance advisor. In the case of Banc assurance, a good deal of business procuration has been linked to other services that a customer may avail of. There are also many instances where companies are able to get to customers who have a high degree of risk aversion towards mortality.

The strains are obvious from the figures: The number of individual policies in force [a proxy for its customer base], has declined from a high of 336 million in 2013 to about 333 million in 2020.

We also invite our readers to look at two other pieces of data and draw their own conclusions [1] The trends in Surrenders and withdrawals and their ratio to Individual New Business Premiums; and [2] The persistency ratio, as given by the number of policies which remain in the books of the company beyond 5 years [the minimum term of a policy as prescribed by the IRDA]. For those younger life insurance practitioners who have another 15 to 20 years or more to go before they reach superannuation age, there may be another question - What about the next twenty to thirty years? Are Millennial and Gen Z members [dominant customers of tomorrow] likely to be interested and attracted in the [mixed and matched] value offerings that have been pitched for decades?

Moving on ...

While life insurers have remained tangled in their "contract provisions"

Universe, the world around has moved on. The industry, which grew in the womb of the industrial order of the 19th and 20th centuries, was nourished in the era of mass production of commodities to meet a set of needs. Intense competition among companies, based on product differentiation, led to a shift in focus towards features and benefits selling. Life insurance companies followed the trail, making death cover and illustrations of returns the basis of their marketing efforts. By the end of the twentieth century, business enterprises around the world had moved into a third era [era of the 'brand'], where jostling for customers' mind space and brand building around lifetime client relationships emerged as the key to success. This transition was expressed though a number of clichés like 'one market of a million to a million markets of one'; and 'optimisation of the Customer journey' through experience management. The onset of the digital revolution and new generation [Millennial and Gen Z] expectations around the turn of the millennium, has given rise to a new era– characterized by entirely new realities like:

- Value Co – creation: the demand to participate, co-create and partner with brands/ companies in creating value
- Emergence of the Platform: a business model that brings together one or more groups of producers/service providers and consumers for facilitating an exchange of value between them
- Behaviour Modelling : use of the new technology [e.g. Internet of things, Analytics, Artificial Intelligence] to access millions of digital space participants; capture/ record their thoughts, emotions, attitudes and behaviour intentions; which can be incorporated intobehaviour prediction models
- Quality of life concerns – like Freedom and greater control over one's life and relationships; gender equality and diversity; concern about physical and mental health; harmonization of material and spiritual aspects of being; search for the ultimate meaning and purpose of life. This reflects a shift from the old culture where one's self identity was typically equated with one's wealth and material possessions, status and power – to a realization about dimensions that go beyond pleasure and acquisition.

The Corona Pandemic especially came as a wake - up call, reminding us all about the unpredictability and ephemeral nature of life and the importance of peace and health to one's well – being. People around us are not going to be the same again. What about life insurers? Now that the third wave is also ebbing slowly, will it be back to 'business as usual'?

'Life' and 'Insurance' are two words, describing different worlds, with a chasm between them..

While insurers are concerned with the viability and profitability of ntheir wagering contracts, which are termed as *'insurance'*, their customers are concerned wth *life*. The latter is a vast stage with multiple roles being played out; a field of deep yearnings – to acquire, to protect and preserve; to bond, to learn, contribute, and find meaning and fulfilment. It is splattered with events and concerns – like career building, marriage, parenting, health and wellness, loneliness and finding companionship…

Perhaps its time to bridge the chasm and reclaim the humanity that lies deep in the heart of the insurance principle. It is about making insurance a way of life – a relation between people and not a relation between things… TJ

		PLAN 1		PLAN 2		PLAN 3		PLAN 4		PLAN 5	
Age	d_i	MEAN	σ^2	MEAN	σ^2	MEAN	σ^2	MEAN	σ^2	MEAN	σ^2
30	0.000977	0.610	380.78	0.055	3.233	0.018	0.342	0.001	0.00068	0.015	0.221
31	0.001004018	0.024	0.57	0.007	0.056	0.003	0.009	0.000	0.00012	0.003	0.006
32	0.001039936	0.007	0.06	0.003	0.015	0.001	0.002	0.000	0.00004	0.001	0.001
33	0.001082719	0.004	0.02	0.002	0.008	0.001	0.001	0.000	0.00002	0.001	0.000
34	0.001135322	0.003	0.01	0.001	0.005	0.001	0.000	0.000	0.00001	0.001	0.000
35	0.001195703	0.002	0.00	0.001	0.004	0.000	0.000	0.000	0.00001	0.000	0.000
36	0.001266796	0.002	0.00	0.001	0.004	0.000	0.000	0.000	0.00001	0.000	0.000
37	0.001347541	0.001	0.00	0.001	0.003	0.000	0.000	0.000	0.00000	0.000	0.000
38	0.001439852	0.001	0.00	0.001	0.003	0.000	0.000	0.000	0.00000	0.000	0.000
39	0.001543637	0.001	0.00	0.001	0.003	0.000	0.000	0.000	0.00000	0.000	0.000
40	0.001659785	0.001	0.00	0.001	0.003	0.000	0.000	0.000	0.00000	0.000	0.000
41	0.001790148	0.001	0.00	0.001	0.003	0.000	0.000	0.000	0.00000	0.000	0.000
42	0.001938515	0.001	0.00	0.001	0.003	0.000	0.000	0.000	0.00000	0.000	0.000
43	0.002106649	0.001	0.00	0.001	0.003	0.000	0.000	0.000	0.00000	0.000	0.000
44	0.002299208	0.001	0.00	0.001	0.003	0.000	0.000	0.000	0.00000	0.000	0.000
45	0.002522709	0.001	0.00	0.001	0.003	0.000	0.000	0.000	0.00000	0.000	0.000
46	0.002781579	0.001	0.00	0.001	0.004	0.000	0.000	0.000	0.00000	0.000	0.000
47	0.003082049	0.001	0.00	0.001	0.004	0.000	0.000	0.000	0.00000	0.000	0.000
48	0.003429166	0.001	0.00	0.001	0.004	0.000	0.000	0.000	0.00000	0.000	0.000
49	0.003824844	0.001	0.00	0.001	0.005	0.000	0.000	0.000	0.00000	0.000	0.000
SB	0.958263028	-0.95826	0.48	-0.958	0.014	0.051	0.002	0.063	0.00000	0.077	0.000
	MEAN	-0.293		-0.878		0.079		0.068		0.101	
	VARIANCE		381.94		3.383		0.357		0.0009		0.230
	STD DEV		19.54		1.839		0.598		0.0300		0.480

Insurtech- Evolution & Growth in Indian Insurance Industry

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The buzzword in the world of finance today is 'fintech', which signifies financial products that are created and delivered using modern technologies such as Internet Of Things (IoT), Artificial Intelligence, blockchains and machine learning. Insurtech, a portmanteau of two words, 'insurance' and 'technology', is a subset of fintech that focuses on the insurance industry.

The touch of digitisation has always accelerated and given a new height to every aspect. So why the insurance sector should stay away from that touch and so comes the new normal in the world of insurance INSURTECH.

Insurtech, like fintech, is a word for a firm that uses technology to disrupt the insurance sector, because insurance industry is heavily regulated, any insurance business must exercise extreme caution. That is why they are still hesitant to deal with any technology startup. Insurtech is a complement to existing insurance firms rather than a rival.

Insurers should get familiar with new ideas, such as blockchain, smart contracts, machine-oriented deep learning and the Internet of Things. Crucial aspects of insurance are drastically changing through use of Artificial Intelligence. New customer specific insurance plans are getting structured with the help of these new technologies in the form of usage, micro and sachet insurance, etc.

Claims, distribution, underwriting, and pricing aspects of insurance are getting reshaped. Several start-ups

are coming forward with innovative ideas on connecting technology with insurance.

Over the last five years, the Indian insurtech sector has shown a significant growth due to its

impressive performance and future potential. The growth has, so far, been a balanced one spread over all the key sub-segments.

About Insurtech

The explosive growth of internet, personal computing devices and digital technologies during the last two decades has led to the development of many innovative financial products with greater focus on technology. Financial technologies are now used in investment management, wealth management, banking services, risk management, payment systems and insurance.

Insurance is one of the latest constituents in financial services industry to join the technology bandwagon. Historically, insurance has been heavily dependent on people to design, promote and deliver its products to the intended consumer. But now there is an ecosystem of well-developed financial technologies which can be employed to improve products and services in the insurance sector too. Hence, in the last decade or so lot of start-ups and even well-established insurance businesses have started leveraging technology in a big way to provide innovative products that can improve savings and efficiency from the current insurance industry model. This is what insurtech is all about. As such The National Association of Insurance Commissioners (NAIC), a US Standard setting organisation in the insurance industry, describes 'insurtech' as the innovative use of technology in insurance.

The term 'insurtech' is commonly used to describe how new technology is being leveraged throughout the insurance value chain to reduce costs and increase efficiency. Insurtech emerged in 2010 as a spinoff of 'fintech', a similar banking endeavour.

The year 2010 marked the beginning of a new era in world of insurance sector that mainly focused on enhancement of existing efficiencies of insurance companies by using technological innovations derived from applications of fintech, known as insurtech. Insurtech can be defined as technological innovations of different innovative product offerings that are much differentiated and customized from traditional products and provides for arrangement of a guaranteed compensation for a specified premium- all by the assistance of Artificial Intelligence and Internet Of Things (IoT). The motive of such technological innovation is quite pronounced and clear. The attempt here is to focus on insufficient areas like in case of life insurance more on customer touch points and customer engagement because after the sale the second touch point is at the time of claim. Thus insurtech will increase this engagement of customers more with the insured company; in case of health insurance the most important area of concern is to properly connect wellness and health with the policy so that an effective policy portfolio could be provided to customers whereas in case of general insurance the focus is mainly on cost cutting as it is a super-fast exchange market of products and services. The aim of insurtech is to minimise the time taken to convert customers to consumers and also to provide ease of procedures at the comfort of customer through digitalization of act, thereby potentially improving fraud minimization.

Digital technology has been the greatest enabler of modern civilization. It is constantly redefining our life and lifestyle by continuously enabling firms to innovate. There is hardly any sphere of modern life that has not been reshaped by its Midas touch. This technology led digital revolution in India has paved the way for advent of a new breed of start-ups in insurance industry that is creating newer opportunities in product development and service delivery with their innovative skills. These are the insurance firms- the future of Indian insurance sector.

Scope and Technology Use

India is the second largest insurtech market in the Asia-Pacific region, accounting for 35% of the $3.66 billion in Venture Capital invested in the industry, according to S&P Global Industry Intelligence.

According to Boston Consulting Group (BCG), Property and Casualty (P&C) insurance was well funded area of insurtech in 2020, with $3.4 billion, or about 45% of total funding. The other large expenditure categories were health insurance with $2.1

billion at 29%, multiline insurance with $6.1 billion at 22% and life insurance with about $300 million at 4%. There are also insurtech start-ups that specialise in actuarial or risk discovery methods.

Insurtech is built on cutting-edge technological applications. Some of the most common technologies utilised in this field include micro insurance, peer to peer insurance (P2P), Robo Advisory, Internet of Things, embedded insurance (machine learning, AI, Big Data), usage based insurance, machine learning and deep learning, blockchain technology and gamification.

Insurance business is one of the oldest businesses in the finance industry with its own processes that are quite different from others in financial services space. Traditionally, insurance is considered as a push-product with a major focus on people and personal selling and rather a low technological footprint. But over the past decade many external factors have changed people's habits and perceptions.

The growth of internet and mobile devices coupled with fall in prices of data has changed customer spending habits and demand patterns. They now prefer the 'do-it-yourself' model over the 'push-model' in everything including buying insurance. This means insurers offering products on mobile and internet platforms are now preferred over the traditional agent-only insurers. This has encouraged a number of digital-only insurers with no brick-and-mortar presence to expand their business. It has also forced the old-world insurers to introduce digital products and online delivery methods.

However, not just delivery channel, customer preferences in insurance has also changed. Today there is a growing demand for insurance for new-age needs such as for e-commerce purchases, air travel, and electronic devices such as high-end mobiles, laptops and even eyewear. These are needs which none of incumbent insurers cater to, but which have a growing clientele because of the change in demographics and earnings power.

During the same period risk perception and the need for insurance has also changed drastically. Natural disasters like the corona virus pandemic and cyclones have made people realize the importance of adequate insurance. Consequently, all major health and life insurers saw a spurt in their sales soon after the onset of pandemic. Similarly, disasters such as cyclones led to an increase in demand for property insurance, hitherto a neglected segment.

Maturity of new technologies is another strong reason for the growing interest in developing insurtech. Technologies like blockchain, analytics, machine learning and robotics automation have already found applications in different fields of fintech. Together with availability of voluminous data on consumer behaviour, these technologies are proving valuable in providing new insights to existing and newly generated data. Their technological maturity has reduced a level where these can be easily tailored to generate valuable information in insurance as well.

Key Benefits of Insurtech

Employing technology in the insurance business means greater efficiency, lower costs and faster servicing for both the insurer and the insured. Some of the key benefits accruing to stakeholders are discussed below.

1. On-demand product availability is a key benefit of insurtech. Consumers need not visit a physical location at a set time to purchase or to know about a product. Instead they can interact with chatbots which can educate the consumer about the features of a policy and assist them in buying one, or they can use a mobile app to do these.

2. New and innovative products can be tailored for the insured depending on specific needs and demands.

3. Insurers can better manage their risk by using numerous data points which are used to track and project user behaviour and create risk profile of an individual. Analytics and machine learning can then be used to create personalized pricing for the product.

4. Insurers have become more effective at fraud prevention and management due to extensive use of data analytics which can sift through gigabytes of data and select the relevant details. Blockchains too help in authenticating claims and prevent frauds.

5. Integrated billing and payments ensure premium to be processed in real time and claims can be processed more efficiently for improved client satisfaction. Robotic process automation can quickly sift through relevant documents and approve or reject a claim.

6. Lower underwriting costs for the insurer and hence lesser premium for the insured.

7. Dispensing with the intermediary between the insurer and the insured means lower premiums for the insured while ensuring faster and direct delivery of services.

8. Lower costs and higher profitability for the insurer makes them more competitive vis-à-vis traditional insurance companies. Moreover, employing technology also increases their visibility and hence their customer-reach.

Trends in India

Insurtech has impacted the UK largely and Asia is seeing a rising trend in shift from traditional insurance methods to reliance upon insurtech. India has seen a manifold increase in funding and truly insurtech is the next big thing. The year 2016 saw $11 million funding insurtech in India, which increased to $287million in 2020. There are at present 110+ insurtech start-ups and the past two years have seen established insurance companies collaborating with insurtech start-ups to offer unique bit-sized insurance products to the customers. With increasing customer base on digital platforms over past few years, demands for insurance products online have increased. About 65% of insurance customers in 2019 were found to create digital platforms for their journey towards purchase. About 88% of customers, expressed their willingness to purchase insurance products through digital channels (According to BCG-FICCI Survey reports). Moreover, demands for unconventional insurance products, shared car insurance, etc are on the rise. It can be safely concluded that insurance now is no longer limited to life and non-life insurance. The scope is ever widening with innovations all around the globe that has in fact impacted the domestic demand.

With the Covid-19 pandemic, things have turned in favour of insurtech. Though the first three quarters of 2020 saw reduced funding with Turtlemint raising $30 million in November 2020 and Digit raising $84 million at the start of 2021 to achieve a valuation of $1.9 billion, surely the funding is back on track, which is nothing but a reflection of optimism of fund flow for insurtech. From the time pandemic hit our Country, there has been increased customized offering of insurance products by insurtech firms, coupled with increase in customers' demand for insurance products. Covid-19 has shifted the perception of risk and risk courage, due to which there has been about 10% increase in demand from urban customers. With India's total real premium growth rate of 9.3%, increased customer demand for customized product, the age long tradition of 'one size fit many' is turning obsolete. The only way to meet the demands effectively is with help of insurtech collaborations.

During the recent times, Indian *insurtech* firms can be seen experimenting successfully with tech-enabled innovations in almost all the aspects of insurance business. Some of these innovations like the following ones even have the potential to be the game changers for the industry.

1. Sachet Insurance:

These are some non-comprehensive plans which focus on a specific event and are offered at a low premium and cover. Examples:

- Acko has collaborated with many digital platforms to sell bite sized insurance or sachet insurance such as trip insurance that covers accidental medical expense, hospital daily allowance, death and disability.
- Toffee Insurance is experimenting with innovative sachet insurance such as cycle theft and fitness insurance.
- PhonePe is selling sachet health insurance products with cover against Covid-19, Dengue and Malaria. Mobikwik is also offering insurance cover against vector borne diseases.
- Digit Insurance is offering mobile insurance with cover against accidental screen damage. It also has home protection insurance covering burglary, loss of jewellery etc.

- Symbo India is offering Marathon insurance with cover against loss of shoes, trip cancellation, accident, hospitalisation etc.

2. Microinsurance: Another emerging trend in Indian *insurtech* sector is microinsurance which tries to help low-income families by offering tailor-made insurance plans. *Insurtech* firms are betting big on this untapped opportunity by offering innovative products such as coverage for irrigation system, animal carts, livestock welfare, failed wells etc.

3. Insurance as a Feature: Today, insurers are increasingly partnering with intermediaries like various digital platforms, online or offline dealers to sell their insurance not as a separate product but as an additional feature of the product a customer is buying from such channels. For example, Mobikwik, PhonePe, Paytm are selling the insurance to its customers as an additional feature while they are buying products from their platforms.

4. Seamless Customer On boarding and Claim Management: *Insurtech* firms are leveraging technology to make customer on boarding, claim management a seamless experience. For example, GramCover has developed a mobile based platform to enable seamless customer on boarding in rural India. TurtleMint has developed an AI based sales assistant which helps in paperless issuance of insurance products and also simplifies the lead management. Xceedance has developed a cloud-based technology to automate policy issuance, renewal and customer service.

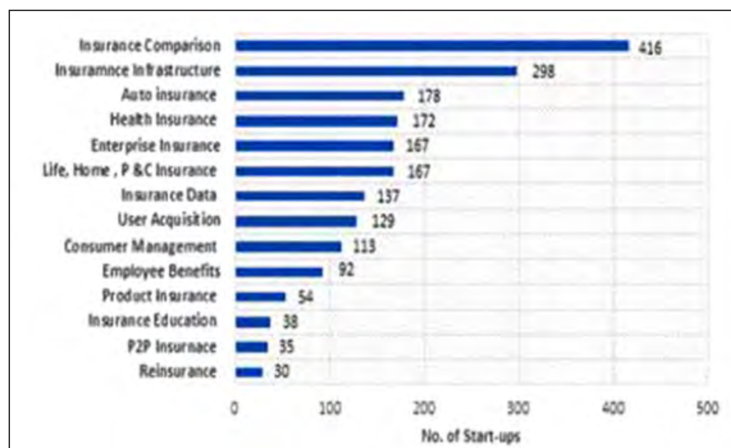
Origin and Development of Insurtech Worldwide

Insurtech emerged around 2010 as an offshoot of a similar innovation in banking, known as ‘Fintech’. Friendsurance was among the first start-up to introduce digital transformation in insurance sector. This Berlin based start-up established the first peer-to-peer insurance in 2010. Friendsurance’s P2P insurance model incorporated a smaller group into a bigger insurance pool and offered claim free years with cash back bonus. Among the other early players were the price-comparison aggregators like CoverHound and on-demand property insurer Trov.

The number of *insurtech* companies has since exploded unimaginably to create a vast, ever evolving ecosystem of innovation in the field of product offerings and serviceability in the sector. Over the last one decade, the number of *insurtech* platforms has increased in a steady pace. A report by Milken Institute revealed that out of 104 new launches between 2000 and H1 2018, 79 per cent were launched during 2011-2016. The U.S.A accounted for 64 such platforms (62 per cent) followed by India and U.K. Ninety per cent of the new launches were in five countries namely U.S.A, U.K, India, Singapore and Germany. At the height of the rush, between 2012 and 2016, there were anywhere from 10 to 15 firms launching per month worldwide. The following was the business category wise break up of *insurtech* start-ups worldwide as of September 2019.

Figure 1

No. Of Insurtech start-ups worldwide by business category



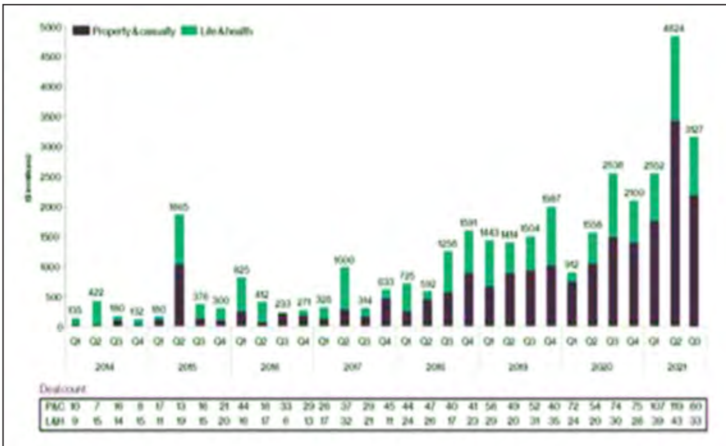
(Source*: CB Insights*)

The funding in the sector also increased manifold over this time. While the annual investment in *insurtechs* was merely $140 Mn in 2011, it climbed to $270 Mn in 2013 and a whopping $2.7 Bn in 2015. The average investment per *insurtech* had risen from $5 Mn in 2011 to $22 Mn in 2015 (Source: *Panorama Insurtech Database of McKinsey & Company*). In its report on Insurance Tech sector, CB Insights disclosed that between 2015 and 2017, more than $6.5 Bn

was invested in *insurtech* firms. The latest Insurance Tech Report of Q3 2021 by CB Insights shows that quarterly funding in the sector reached a record $4,824 Mn in Q2 2021 from a mere $135 Mn in Q1 2014 (Figure 2), with property and casualty (PC) segment leaving the life and health (LH) segment far behind.

Figure 2:

Quarterly insurtech funding volume – all stages and share of PC and LH

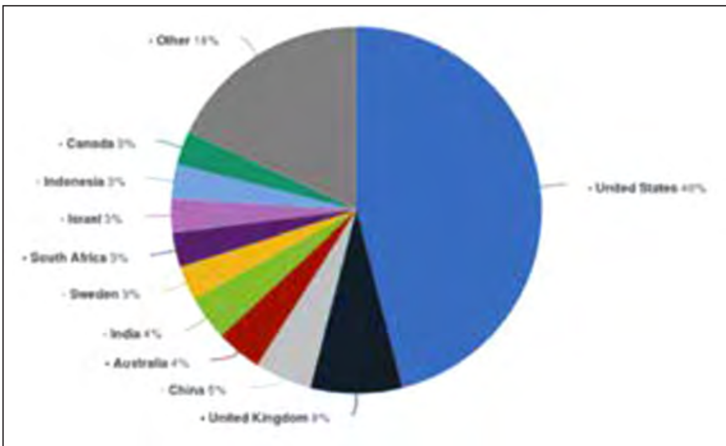


(Source: *CB Insights Insurance Tech Report of Q3 2021*)

The country-wise share of *insurtech* funding transactions is the highest in U.S.A (46 per cent) followed by U.K (8per cent), China (5 per cent) and India (4 per cent) (Source: *CB Insights Insurance Tech Report of Q3 2021*).

Figure 3:

Share of Insurtech funding transactions in selected countries in Q3 2021



(Source: *CB Insights*)

How Can Insurtech Revolutionize the Insurance Value Chain?

Insurtech has the potential to revolutionize each and every activity of the insurance value chain through the innovative use of technology.

a. Product Design

Insuretech can use IoT and AI to assess the behaviour of the applicant and provide customised insurance products. For example:

- In the auto insurance segment, insurers may introduce usage-based insurance where the premium will be decided based on driver's behavioural data. Even a pay-as-you-drive auto insurance may also be introduced where monthly billing will vary based on how a person drives.
- In the health insurance segment, wearable technology may be used to design a customised product.
- In the home and commercial insurance segment, smart sensors and predictive analytics may be used to predict floods, burglary attempts or a potential fire and design the premium structure accordingly.

b. Marketing and Distribution

Insurtech can certainly go beyond making the distribution digital. It can ensure omni channel approach towards marketing and distribution of products to improve customer experience. It may also introduce a liquid ecosystem that will facilitate customisation to the highest possible extent.

c. Underwriting and Policy Administration

Insurtech can improve the policy administration over the term of the policy through collection and processing of data seamlessly. For example, in the health insurance sector, medical records can be accessed right from the healthcare institution's database.

d. Claim Processing

Insurtech can use artificial intelligence and data processing to improve claim management. Aerial image recognition and sensors can support digitization of the entire process. For example, satellite images, CCTV footages, drone images, car repairing and maintenance records may help accidental claim processing in the auto insurance segment. Similarly, AI may help in fraud detection, cyberattack detection and processing claims in cyber insurance segment. Health data based on unique health id. of a person can smoothen out the health insurance claim processing.

e. Payment and Settlement

Insurtech can certainly use online claim payment and settlement by recourse to various fintech tools.

f. Customer Service

Using AI and machine learning, *insurtech* can automate customer services such as generating personalised quotes, comparison of products, complaint booking and query resolution (through Chatbots).

Insurtech Landscape in India

The MEDICI India InsurTech Report 2020 has classified the independent *insurtech* companies (i.e., excluding those *fintech* companies that sell insurance in collaboration with insurers) into five sub-segments as follows:

a. Software/White Label/APIs: These *insurtech* companies provide various software solutions to insurance companies and brokerage firms. Their offering ranges from solutions such as risk assessment, fraud detection, underwriting, policy administration, data aggregation, online sales, chatbots, customer relationship management (CRM) tools, APIs, regulation and other white-label tools.

b. Internet of Things: The companies in this segment leverage the connected device technology. They use sensors and wearables to identify and analyse the risk to users and accordingly help to design customised products and prices. Examples include usage-based telematics programme in car insurance through regular monitoring of the driver, customised solutions for home and life insurance.

c. Online-First Insurance: The companies in this segment sell their own insurance products, such as life and health, property and casualty insurance mainly through the digital platforms.

d. Claims: These companies help digitizing the claim processing using tech solutions such as video calls and self-service portals. They further leverage technologies, such as AI, machine learning and robotics, to provide cognitive learning systems for quicker responses.

e. Aggregators/Policy Management: These firms offer digital tools which allow users to search, compare, and find affordable premiums from various insurers offering the product. It may also include players who help users to manage policies and/or finance premiums from a single platform. The major players in these segments are as follows.

Figure 4

Major players of Indian Insurtech sub-segments

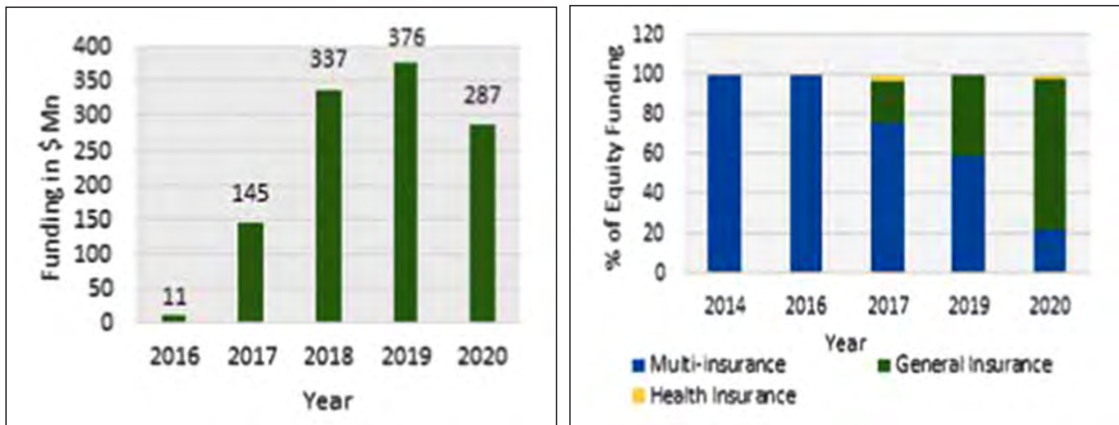
(Source: MEDICI India Insurtech Report 2020)

Growth of Insurtech in India

In spite of a marginal growth in insurance penetration, Indian *insurtech* sector has experienced a significant growth in recent years on multiple parameters. As per the recent data published by ET BFSI.com, there are currently more than 110 *Insurtech* start-ups in India with maximum number of additions during 2015-2020 period across all the sub-segments. The *insurtech* funding in India grew from a modest base of $ 11 Mn in 2016 to $ 287 Mn in 2020. From 2014 to 2017, Indian *insurtech* sector was largely dominated by Multi-insurance players (i.e., firms who provide multiple services and not only insurance) including PolicyBazar, Coverfox and Renewbuy. However, with the emergence of Acko and Digit Insurance, the General Insurance started gaining momentum. Accordingly, funding share to general insurance consistently increased from a mere 25% in 2017 to 75% in 2020 (Figure 5).

Figure 5

Equity funding in Insurtechs in India (in $ mn) with sectoral break-up



(Source: India InsurTech Landscape and Trends by IIA, 2021)

The year 2019 saw the maximum number of major funding rounds followed by 2017. Funding was obtained by firms mostly as pre-seed or seed capital. However, later stage funding also increased steadily (Figure 6).

Figure 6

No. of rounds by funding stage

(Source: India InsurTech Landscape and Trends by IIA,2021)

The pace of late-stage funding has been increasing consistently since 2015. In 2019, there were 4 Series C+ rounds and 3 Series B rounds raising $257 Mn and $62 Mn respectively. Another indicator of rising late-stage funding is the increase in the number of $10 Mn funding which jumped from one in 2014 (PolicyBazar) to 6 in 2019 and 5 in 2020. The average size of investment also increased from $20 Mn in 2014 to $46 Mn in 2020. In 2021, Digit Insurance became the first Indian Unicorn in the sector with a valuation of $1.0 Bn.

Of the total funding till 2020, B2C segment accounts for more than 90 per cent indicting that B2B segment is still at its nascent stage.

Key Drivers of the Growth of Insurtech in India

The phenomenal growth of *insurtech* start-ups in India over the last few years is the result of certain key factors. These are discussed in the following paragraphs.

a. Advancement in Technology: *Insurtech* solutions are technology driven. Accordingly, the recent advancements in technology, especially in the field of artificial intelligence (AI), machine learning, blockchain and analytics, biometrics, cloud computing etc. played a major role in the growth *insurtech* start-ups in India.

b. Legacy Insurers: One of the prime reasons for the inefficiencies of Indian traditional insurance firms is the outdated computing system and/or hardware that are still in use. What adds to this is the lack of effort on the part of these firms to replace the age-old system of customer acquisition, record maintenance and claim management. As a result, these traditional firms still struggle with easing the policy terms, developing differentiated products, claim settlement, payment and mutual trust between buyers and sellers. This is where the Indian *insurtech* firms have found their opportunity.

c. Conducive Funding Environment: Over the last five years, Indian *fintech* sector has attracted the attention of investors worldwide. Being a subset of *fintech* sector, *insurtech* firms also have been successful in tapping a large chunk of these investments. Attention of Global investors provided a conducive funding environment to Indian *insurtech* sector within which it is growing at a significant pace.

d. Mobile and Internet Penetration: Another significant contributor to the rapid growth of *insurtech* firms in India is the high rate of internet and mobile penetration. Low cost of internet and budget smartphones have helped India to record the second largest internet population at over 749 million users in 2020, after China. Of these, 744 million users used mobile phones to access the internet. The internet penetration rate in India is as high as 53.92 per cent in 2020 while the mobile phone internet user penetration rate is 60.5 percent as *insurtech* services are technology driven, higher internet and mobile penetration have boosted the growth of this sector further.

e. Favourable Demographics: Today India has more than 65 per cent of its population below 35 years of age. This young population is extremely tech-savvy and has an appetite for innovative technology in all spheres of their lives. *Insurtech* firms are leveraging on this section of population for greater acceptance of their offerings.

Top Performers of Indian Insurtech Sector

Following are the top performers of Indian *insurtech* sector in recent years:

a. Digit Insurance: This Bengaluru based *insurtech* was founded in 2016. It offers products such as car insurance, travel insurance, home insurance, commercial vehicle insurance, and shop insurance. Till date the company has raised $460.8 Mn over seven funding rounds. Presently, it is a unicorn with valuation of $3.5 Bn.

b. PolicyBazar: Founded in 2008, this start-up is an online insurance aggregator and facilitates comparison of insurance products available across insurers. It also supports claim processing. Its current valuation is around $2.4 Bn.

c. Acko General Insurance: It is a Mumbai based online only insurance provider offering personalised insurance products and bite size insurance products. Over 6 funding rounds, the company has, so far, raised $458 Mn. Recently it has entered the unicorn list in 2021 with current valuation of $1.1 Bn.

d. Coverfox Insurance: Founded in 2013, the company provides online insurance broking services, insurance

products such as car, bike, health, travel insurance and also offers end to end support for claims. Over 6 funding rounds, the company has raised $51.3 Mn.

e. Toffee Insurance: Founded in 2017, the company is growing fast in the *insurtech* space by offering insurance products that are affordable, relevant and accessible. Total fund raised by the company is $ 7.1 Mn.

f. Riskcovry: This Bengaluru based company was founded in 2018. It provides a one-stop platform to access any digital insurance need by a business. The company has, so far, raised $5 Mn over two rounds.

g. Symbo: The company offers direct insurance as well as reinsurance solutions across all the product categories.

Challenges of Indian Insurtech Sector

Indian *insurtech* sector needs to overcome a number of hurdles to establish it as a trend setter within the broader insurance industry. These are:

a. Low Insurance Penetration Rate: In spite of its huge population, the insurance penetration rate in India is not satisfactory. As per the MEDICI India InsurTech Report 2020, the penetration rate was between 3.4% to 3.7% during 2015 to 2018, way below from the peak in 2009 (5.20%). The lower penetration rate may eventually limit the growth of this sector.

b. Fragmented Market: Due to the sudden spurt in *insurtech* opportunities, many new companies have been launched without significant differentiation in their products or service offerings. As a result, the industry space is getting overcrowded leading to fall in market share. The market is increasingly getting fragmented.

c. Customers' Inertia: The vast majority of Indian population still have faith on the public insurance companies. They are still not ready to switch over to these new firms even if their products are way more affordable. The *insurtech* firms have to fight against this customer inertia to increase customer onboarding significantly.

d. Competition with Traditional Insurers: Traditional insurance firms, which have lost their ground to *insurtechs* in a big way during the last few years are trying hard to regain their position either by modernizing their systems or by partnering with technology firm to reach the customers. This competition is likely to be more intense in the future.

End Note

India has always been an underinsured country with a miniscule part of the population only having some form of insurance. This provides the insurance industry with a tremendous potential to grow. But this growth can only happen if there is technological adoption across the industry to develop and deliver innovative products. In the nascent stages of the insurtech industry there was much speculation if the legacy insurance companies will be displaced by the new entrants. But with their specific strengths, viz. technological edge of insurtech and vast customer connect and established distribution network of insurance companies, the stage is now set for their collaboration, co-existence and growth.

Riding on the recent rounds of capital infusion, Indian *insurtech* firms are leveraging on technology to come up with innovative products and customised services at affordable cost, which is the most essential factor for insurance adoption in India.

Given the potential market size, if *insurtech* firms can deliver on this front, India will soon see an *insurtech* revolution that will redefine the entire insurance sector.

It is quite evident that the insurance industry is on the rim of tech-driven shift. Therefore, in the coming years the AI related technologies will have a vast impact on every aspect of the insurance industry. It will make the current insurance model more efficient by several ways like enhancing the purchase experience by helping in real time purchase and with the less engagement of insurer and insured. Use of AI and data analytics will also help in competitive product pricing. This new era will also help the existing insurers to become more proactive as they need to understand and adopt the required skill, knowledge, talent to cope with the changes and to have a clear and consistent perspective of their willingness to become successful players in the new space whereas the *insurtech* startups might also require the help of such traditional insurers in handling cataclysmic risks. TJ

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Pragmatism in Pensions

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Abstract

To achieve the targeted financial objective, an individual has to make multiple decisions throughout the pension lifecycle (accumulation/ decumulation). However, behavioral aspects influence the rationality in undertaking such decisions pertaining to various elements of Defined Contribution pensions. The article provides an insight into the literature related to the subject matter and how associated policy factors can be practically tuned for all benefit of the subscribers.

Keywords

Pensions, Behavioral Economics, Defined Contribution, Pragmatism.

*The views expressed are personal and do not necessarily represent that of the Authority.

Pragmatism in Defined Contribution Pensions

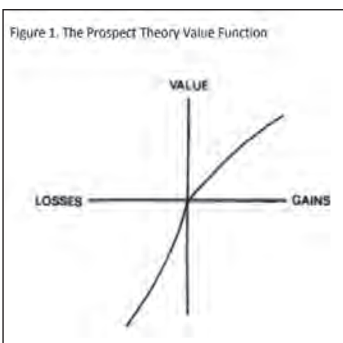
Pragmatism is a way of dealing with problems or situations that focuses on practical approaches and solutions—those that will work in practice, as opposed to being ideal in theory. It is based on real-world conditions or circumstances—considering what can realistically be done as opposed to the best theoretical course of action. Bartle and Shields (2008) attest that to make sense of pragmatism, it is useful to begin with inquiry and its role in resolving problematic situations. Pragmatism uses a problematic situation as a starting point for inquiry and pragmatic inquiry incorporates a scientific approach and broad participation. Ultimately,

problematic situations are resolved through action.

They also indicate that Classical pragmatism provides a strategy that can help financial managers recognize and resolve problematic situations as they go about the practical day-to-day business of implementing programs, preparing financial reports, balancing budgets, and considering revenue options. It does this in a context that encourages democracy, and recognizes the web of networks that enrich and complicate their world, thus the emphasis on the community of inquiry is more appropriate than a single theory.

As far as investment decisions are concerned, aspects of prospect theory such as overconfidence and loss aversion appear to be very relevant. Overconfident behavior is observable at the gains area where people tend to create future forecasts based on excess optimism about their own capabilities. Individuals seem to underestimate the role of random chance when making predictions about the future. This can translate in sub-optimal and certainly not rational decision-making[1].

Figure 1. The Prospect Theory Value Function



While deliberating disposition effect, Shefrin and Statman (1985) opinionate that the investors ride losers to postpone regret, and sell winners "too quickly", as suggested in Prospect theory of Kahneman and Tversky, because they want to hasten the feeling of pride at having chosen correctly in the past. Thus, indicating an inconsistent and conflicting decision making by the investors.

In an increasingly risky and globalized marketplace, people must be able to make well-informed financial decisions. New international research demonstrates that financial illiteracy is widespread in both well-developed and rapidly changing markets. Women are less financially literate than men, the young and the old are less financially literate than the middle-aged, and more educated people are more financially knowledgeable. Most importantly, the financially literate are more likely to plan for retirement. Instrumental variables estimate show that the effects of financial literacy on retirement planning tend to be underestimated (Lusardi, Mitchell, 2011).

Increasing life expectancy and longevity make the need for retirement income increasingly important. During the last decades indeed, a shift from Defined Benefit (DB) pension plans towards Defined Contribution (DC) plans has occurred. People have to save themselves and more in order to fulfill their retirement objectives.

Rinaldi and Giacomel (2008) emphasize that in general terms, taking stock of standard economic theory, the specific decisions regarding a DC pension plan should be seen as part of a much wider inter-temporal optimization problem, in which individuals are asked to take their decisions at every point in time regarding alternatives, or "control variables": how long and how hard to work, how much to save/consume, how to invest saving flows, whether and how to reallocate their stock of wealth, etc. In an ideal world, through the whole of their working life, individuals should take a "trajectory" of decisions regarding the control variables, having in mind a specific objective about their welfare after retirement. Moreover, they should continuously re-adjust their retirement objectives, according to the progressive "resolution of uncertainty" regarding their nominal and real earnings, the actual return of their investments, their health conditions, etc.

Behavioral economics is commonly associated with academic research that offers an alternative to standard economic theory, when it comes to explain decision-making. Behavioral economics can have applications in real-life problems though. Standard economic theory assumes that people are perfect calculators that can assess all information about the prospects they face and make optimal, rational decisions. However, actual practice shows the opposite; people often make biased or irrational decisions. Saving for retirement is perhaps the greatest example of applied behavioral economics and the

[1] https://www.transamericacenter.org/docs/default-source/resources/center-research/behavioral-finance-and-pension-decisions-lampros-romanos

related research suggests that psychological factors also contribute to low retirement readiness and saving levels[2].

In this ideal world, in order to achieve an optimal pattern of decisions and the highest level of welfare that their endowments allow, an individual would simply need complete information. In that case, policymakers would need only to encourage the provision of information, as a "sufficient" instrument in order to induce optimal behaviour by individuals. In fact, the costs of processing all that information would be too high, and some "bounded" optimising behaviour is likely to prevail. Accordingly, Rinaldi and Giacomel (2008) enlists the list the most important of these factors and policy instruments as follows:

1. Education of individual members regarding pension matters;
2. Regulation limiting individual choice;
3. Product/plan standardisation;
4. Competition and market discipline;
5. Prudential regulation that limits risk-taking;
6. Price/cost caps;
7. Advice;
8. Default options.

Few of the above-mentioned policy factors are deliberated in the ensuing document wherein the related behaviors and probable ways to manage them to keep the degree of rationality element intact have been discussed.

Biased Decision Making

Core findings in psychology and economics are that both in experiments and in the field, people consistently deviate from the rational choice model in all of the following respects: they have nonstandard preferences, nonstandard beliefs, and exhibit systematic and predictable biases in decision making. As for biased decision making in the pension domain, the status quo bias, default sensitivity, omission-commission bias and the distortive effect of complexity on choice are particularly relevant.

A case in example is a system where annuitizing the accumulated pension balance is encouraged or mandatory, an important challenge is how to ensure that individuals get the best price for annuity products where these are purchased individually. The complicated nature of pension and annuity products means that their purchase is highly dependent on the information provided by the sellers of these products and the advice received. However, making such comparisons is difficult and time consuming. The annuity purchase decision, which is the most common mechanism consumers use to convert a DC fund into an income stream in retirement, needs to be handled carefully. Pension supervisors need to handle the transition to the decumulation phase carefully to avoid beneficiaries making choices which could lock them into a suboptimal pension payout for the rest of their retirement (Reyes and Stewart, 2008).

An informed decision maybe helpful in evading the probable biasness. However, the complexity of the products, long vesting period, evolving financial markets and limited financial literacy may make the task more difficult. For a financial service product or scheme, conceptual awareness is more important initially and then eventually the bouquet of available products can be offered as per their profile and requirements. There exists a need for exclusive pension intermediaries for on boarding alongwith professional code and ethics that can drive coverage, development of belief in the ecosystem by the society at large and ensure uniformity of knowledge and sustenance of the services by committed players.

Fees and Charges

DC schemes accumulate resources over time and benefit from financial market returns in order to provide workers with an income source in old age. The fees and charges imposed upon pension funds are of great interest and importance to pension supervisory authorities as they have a significant impact on the amount of retirement income delivered to individuals, particularly in the case of DC pension schemes. Yet administrative fees are charged for services in different ways. Even low charges on assets build up over the long period of a pension investment can reduce the pension value substantially. For example, a charge on assets of 1% can reduce the value of the pension by around 20% (Hernandez and Stewart, 2008).

[2] https://www.transamericacenter.org/docs/default-source/resources/center-research/behavioral-finance-and-pension-decisions-lampros-romanos

Ex-post information on investment results, especially when combined and compared with ex-ante information, may help to prevent excessive risk aversion among plan members, and may instead favour an appropriate long-term stance in assessing pension fund performance (Rinaldi and Giacomel, 2008).

Diversification and Options

Iyenger et al (2003) argue that the very act of making a choice from an excessive number of options might result in "choice overload," in turn lessening both the motivation to choose and the subsequent motivation to commit to a choice. An extensive array of options can at first seem highly appealing to consumers, yet it also can reduce subsequent motivation to purchase the product. Having "too much" choice seems to hamper their motivation to buy. Perhaps the phenomenon of choice overload may be further exacerbated by contexts in which (i) the costs associated with making the "wrong" choice, or even beliefs that there are truly "wrong" choices, are much more prominent; and/or (ii) substantial time and effort would be required for choosers to make truly informed comparisons among alternatives. One way to combat the dangers of choice overload in which employees "choose not to choose," is to implement for "libertarian paternalism," a phrase coined to describe institutional efforts to affect individuals' behavior while respecting their freedom of choice.

Hence, a balanced approach needs to be undertaken while offering the gamut of options to the subscribers. Too few options may lead to sub-optimal returns and at the same time excessive options may also result in procrastination of decision making for availing such choice.

Switching

In DC context, the risks are borne by members. It might be prudent that members are offered different options, in order to allow them to match their needs and preferences with the different combinations of risk and reward that are offered by their pension plan. However, greater movements between pension fund providers and between portfolios is linked to increased holdings of short-term and more liquid assets. Switching appears to be driven by competition, market structure, and investment advice, and, unfortunately, frequently results in poor investment returns for members. Accordingly, Morales et al (2017) have prescribed the following recommendations for the regulators:

1. Use administrative controls to prevent fraudulent switching between pension providers;
2. Provide clear performance / costs comparisons to inform members' choice of provider/ fund and encourage informed decision making, beneficial to members and to the system;
3. Supervise and control advertising and marketing (including reporting of performance periods) carefully to avoid switches based on misleading advice;
4. Control financial incentives for sales agents so that switching advise in given in members' interest and not for commercial gain;
5. Concentrate issuance in government securities to create more liquid instruments;
6. Conduct further research on the concept of a central liquidity pool to manage unexpected outflows.

Considering the existing stage of Indian Pension sector, only a selective of the above-mentioned recommendation maybe applicable currently. However, the list certainly provides an indication regarding the various factors and variables that may influence the switching/options decision making by the subscribers during the accumulation life cycle of the fund and how to manage them accordingly.

Contribution Rates

Auto-enrolment is also perceived to be an effective mechanism to increase the coverage and participation in the pension plans. Thaler and Benartzi (2004) proposed a prescriptive savings program, called Save More Tomorrow (*the SMarT program*) in context that as firms switch from defined-benefit plans to defined-contribution plans, employees bear more responsibility for making decisions about how much to save. The employees who fail to join the plan or who participate at a very low level appear to be saving at less than the predicted life cycle savings rates. Behavioral explanations for this behavior stress bounded rationality and self-control suggest that at least some of the low-saving households were making a mistake and would welcome aid in making decisions about their saving. The essence of the program was straightforward: people commit in advance to allocating a portion of

their future salary increases toward retirement savings. Once people enroll in the plan, few opt out because of the strong inertia. The SMarT plan takes precisely the same behavioral tendency that induces people to postpone saving indefinitely (i.e., procrastination and inertia) and puts it to use.

Madrian (2012) alludes that the evidence suggests that matching contributions increase savings plan participation and contributions, although the impact is less significant than the impact of nonfinancial approaches. Conditional on participation, a higher match rate has only a small effect on savings plan contributions. In contrast, the match threshold has a substantial impact, probably because it serves as a natural reference point when individuals are deciding how much to save and may be viewed as advice from the savings program sponsor on how much to save. Automatic enrollment, simplification, planning aids, reminders, and various commitment devices potentially have a much greater impact on savings plan participation and contributions, often at a much lower cost.

Conclusion

People adopt various methods for financial decision making which can be judgmental at times. The literature also indicate that these methods are also not guaranteed to be optimal in terms of desirable returns on investment and achievement of the financial goal. Pension as a product is inherently long term in nature and the compounding effect of returns generated therein can have major consequence on the corpus accumulated till the time of annuitization. Even during annuitization, lack of information and knowledge can result in suboptimal income for the rest of the tenure. Hence, it is vital that the behavioral aspects of decision making should inculcate a degree of rationality during the accumulation as well as decumulation phase. Practical orientation of the associated policy factors can play an important role in ensuring that the individuals and subscribers benefit from the best possible pension returns, corpus and annuity income. TJ

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Wither Insurance Agents?

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Introduction

Advancements in technology tend to give an impression that the insurance agents as a class are bound to dry up and get shrivelled, fall into decay and decline. Some insurance companies and their officials seem to confirm this doom as something that ought to happen. They just base their arguments on the new business purchased through channels other than individual Agents, that are purchased by young Indians who are well qualified academically and well placed employment / occupation-wise. When I find insurance managers sharpening their pencils to write off the insurance agents, a feeling of disbelief creeps in me for insurance without agents will become too prosaic a business not worthy of being pursued.

Fall in Numbers

Let us see the impact of declining individual agency force on new business of the life insurance industry for a period of one decade, immediately past ten years[1]:

As on last day Of the year	*No. of Agents (in lakh) (Life Insurance)*	*% of NB premium brought by Agents*	*No. of Agents Terminated during the year (in lakhs)*
2011-12	23.58	78.69	9.94
2012-13	21.22	77.53	8.01
2013-14	21.89	78.40	6.59
2014-15	20.68	71.42	7.76
2015-16	20.16	68.27	7.17
2016-17	20.88	68.79	5.79
2017-18	20.83	65.03	6.10
2018-19	21.95	62.26	5.34
2019-20	22.78	60.09	5.66
2020-21	24.55	58.14	4.52

Except for the last two years there has been a trend of fall in the number of agents, though 2013-14 showed a marginal improvement in numbers, which has not been sustained. Life insurance individual Agents' output has been coming down as a percentage of total NB premium during the past ten years. Even when their numbers are rising, new business premium collection as a percent to total NB premium has been showing a declining trend. Other Channels are showing improvements in premium collection continuously for the past ten years. Agents' terminations have declined over this decade but those thrown out of the periphery of in-force Agents is very huge in numbers. 66.88 lacs of terminated Agents are a big force that goes to nullify most of life insurers' publicity and advertisement activities. 24.55 lakh people to speak for and 66.88 lakh to speak against the insurers. The total body of terminated Agents would be well above one crore. The IRDA, in one of their Annual Reports, drew the attention of the industry towards this with the following comment – 'Reduction in the number of agents may adversely affect the life insurers' business, persistency and public perception of the agency channel as a stable career. It is, therefore, in the interest of the stakeholders to work on reducing the turnover of agents and build a stable and growing agency force[2].

Volume of NB

What we have stated above is from the angle of absolute numbers of individual Agents and percentage of NB premium brought in by them. A close look at the new business figures shows that the absolute volume of new business procured by individual Agents have not fallen, instead it has improved tremendously in recent years. Let us look at the following figures[3]:

Year	*NB premium (Rs/Cr)*	*% of NB premium by individual Agents*	*NB premium brought in by individual Agents (Rs/Cr)*
2011-12	113966	78.69	89679
2012-13	107361	77.53	83237
2013-14	120325	78.40	94335
2014-15	113329	71.42	80939
2015-16	138765	68.27	94735
2016-17	175202	68.79	120521
2017-18	194153	65.93	128005
2018-19	215003	62.26	133860
2019-20	572910	60.09	344261
2020-21	628731	58.14	365229

What has contributed to these figures are the good work of individual Agents. Fresh recruitments and constant reduction in terminations have their share of contributions. Life insurance individual Agencies need not wonder whether they can function as a strong pillar for the industry. They have over the years proved this.

A Business of Emotions

Insurance is a business of finance. It is also a business of emotions! A business of finance can very well run without an intermediary, theoretically. For example banking. We do not have any agent to canvass deposits or to advice continued retention of the deposits. But then, on Christmas Eve the Branch Manager of my bank visited me with a cake to keep me in good relation with the bank. Truly I felt glad that the bank recognises me! Last year his predecessor called on me on New Year Eve with a beautiful gift from their head office! And he invariably invites me as a speaker in bank's functions. The Branch Manager of the bank wants to keep valued customers in good spirits. I feel emotionally attached to my bank. Good personal relations lubricate best official relations. The insurance agent does precisely this, which a computer cannot do. And this is a significant bond.

Entrusted with a Peculiar Duty

The life insurance agent is entrusted with a peculiar duty of reminding people that their dependents will be in financial difficulty if they meet with an untimely death. Also if untimely death does not visit then also their dependents will be in difficulty for they will outlive their savings and the dependents will have to provide financially for their living. Reminding the unpleasant truth calls for personal integrity. A life insurance agent thus brings in life cover and annuity before his client for his appreciation. I have heard people telling that after death they do not want money from insurance. The fact is no dead-person has ever collected money from any insurance company; it is those who live who collects money (death claim). This is precisely what we call life after death!

The task of general insurance agent or health insurance agent is no different. In the process of soliciting insurance all of them have to draw their prospect's attention to the likely unhappy tidings that may befall on them. Insurance agent is a great well-wisher of his client. He does not desire financial loss to his client. In the process it is but natural that the agent draws his client's attention to probabilities of life and possibilities of economics of industry and trade.

Insurance is Compensation

Insurance is compensation. So no one gets more than what he lost. No customer therefore desires to have a claim on his policy either by death or illness or accident or liquidation of bank. Here the agent is a trump card holder as none of his customers desires a claim from the product he sold. In insurance of a statutory nature as third party motor insurance the agent's role is one of reminding the customer to renew the insurance and at the same time step up the coverage to comprehensive insurance with more added risk-covers.

Beginning of Insurance Contract

Purchase of insurance cover consequent on solicitation by an agent is just the beginning of an insurance contract. Proposal is the beginning of the insurance contract whereas claim is the end of it. Between the proposal and settlement of claim there is long period of several years (especially in life insurance) during which the customer needs to be reminded, serviced and encouraged to keep the policy contract in force for benefits of a policy comes out only when all premiums are paid and it is kept in force.

Once I had the occasion to interact with an LIC Agent of Branch-2, Kozhikode (Kerala) when he revealed to me his secret of customer orientation. He told me that when he comes out of the customer's house with the first premium cheque he prays for god's blessing so that he could come back to that house for handing over maturity claim cheque. What a unique prayer! His prayer covers payment of all premiums and survival of the customer till maturity of the policy. It is this feeling of goodness that cannot come 'online' and where technology fails! The agent in between the company and the customer warms up the relationship.

Selection of a Plan

Let us start with the selection of a plan before purchasing the insurance. This is no easy task. The prospect is trying to select a plan that best suits his needs from about a thousand similarly looking products that belongs to nearly fifty insurance

companies who operate in an imperfect market and each product is made unique through product differentiation. Every product appears similar. But slight add on benefits and inclusions and exclusions here and there make each product appear unique. It is here the services of a professional Agent will help. On line information may be good but the Agent's experience is better as a guide. The Agent can relate other people's experiences with similar products. Moreover the individual Agent provides you with continuity of service, which is not available from corporate Agents or on-line. Unlike other services insurance is a service of emotions! This writer had, for the purpose of contributing an article for a leading English Daily, once enquired of a private life insurer whether it allows reinstatement of surrendered life policies and if 'yes' what are the conditions on which reinstatement is allowed. Soon came the reply 'please quote the policy number!' Neither the computer nor the call centre person is allowed to answer a query the answer to which is not fed into the system. An Agent is different.

Choice of the product, though very important, is only part of the selection process. Similar products may be available with many insurers. But then a more important selection pertains to choosing the insurer or the insurance company. When the country had only one life insurer and that too a government company having a statutory backing of government guarantee on sum assured and vested bonuses on every policy, no one ever thought of the need for looking into the risk that may be thrown up by insurance company's weaknesses. Agents never talked about the company's financial strength or company's likely inability to meet liabilities in future. But now when the industry comprises several companies, competing amongst themselves, and with other companies offering financial products, there is need to compare and assess the financial strength of insurance companies and their ability to meet liabilities to the customers and other persons (like debenture and bond holders etc.). In banking there is a provision of deposit insurance but not so in insurance (in India). If a company fails the only way open to customers is the legal way, to moves courts of law.

A Regulator's Job

A regulator's job is often misunderstood by most customers. A regulator has to act within the legal framework by which it is set up. For regulating and developing the insurance sector the regulator issues necessary regulations and guidelines and acts as a watchdog of the industry. On application on the necessary forms and payment of prescribed fee a bus owner gets a permit to ply the bus from x-station to y-station. One bus may be air conditioned another may be with a leaking roof. It is for the passenger to decide which bus to board and travel. If a bus fails the regional transport authority cannot make any compensation to the passengers. Similarly in insurance too it is the customer who is the decision maker as to which company's services should be chosen. Companies do disclose information that is statutorily required to be displayed on their sites.

Several Indices to Look For

There are several indices to look for in assessing a company's financial strength. For example knowing the insurer's rating by rating agencies. International / national rating agencies do have their own methods to rate the financial standing of a company. Rating is a marking system, and one that is designed to inform interested parties. The ratings are given to large-scale borrowers, whether companies or governments, and are an indication to buyers of how likely their debts are, to be paid back. Credit rating takes into account the debt issuer's ability to pay back its loan[4]. A.M. Best is a U.S.-based rating agency headquartered in Oldwick, New Jersey, that focuses on the insurance industry. Both the U.S. Securities and Exchange Commission and the National Association of Insurance Commissioners have designated the company as a Nationally Recognized Statistical Rating Organization (NRSRO) in the United States. Unlike other NRSROs like Standard & Poor's, Moody's, Kroll Bond Rating Agency, and Fitch Ratings, whose ratings focus on the business sector, A.M. Best historically has focused exclusively on the insurance marketplace. A.M. Best issues financial-strength ratings measuring insurance companies' ability to pay claims. It also rates financial instruments issued by insurance companies, such as bonds, notes, and securitization products. In addition, A.M. Best also publishes a

series of printed and online directories of insurance professionals and publications. The oldest and best known is *Best's Directories of Recommended Insurance Attorneys & Adjusters*. Insurance publications include *BestWeek*, a weekly newsletter, *Best's Review*, a monthly magazine, and an online wire service called *BestWire*[5]. Information as those above may be available through a professional Agent. An individual prospect may not be in the know of ratings etc.

So is the case with 'solvency ratio' of insurance companies. Simply stated, solvency ratio may be understood as a ratio on the following: 'Every insurer and re-insurer shall at all times maintain an excess of value of assets over the amount of liabilities, of not less than fifty per cent of the amount of minimum capital, as stated under section 6 and arrived at in the manner specified by the regulations. An insurer or re-insurer, as the case may be, who does not comply with subsection (1), shall be deemed to be insolvent and may be wound-up by the court on an application made by the Authority[6]. It explains the financial stability of an insurance company. A professional Agent must explain or even compare solvency ratios of different insurance companies. I do not know as to how many on-line purchasers of insurance search for solvency ratios of companies and understand the implications thereof. With the opening up of the industry and more and more sophistication of products and services, the role of individual Agents is expanding!

Ability to pay claims and payment of claims are two different things. How many claims are settled by the company in time, or within the time specified by the regulator, or mandated by the policy contract, or self-declared commitments that companies make through their citizens' charter etc. is an index of dependability of the company. Here, different regions or branches of the company may perform differently. When all India figures for the company may show a not-so-happy state, there may be some branches that may offer commendable performance in claim settlement. In knowing this, the experience of the Agent counts. So is the way a company treats its customers by responding to customer complaints and grievances. The swiftness with which a company responds to a customer's complaint, answers a query, is an index of the company's responsiveness. These are some, not all, factors that highlight the individual Agent's relevance and importance.

Company may be global but customer is local. Any company strategy that is not linked to local situations is bound to be unwelcome to the local customer.

Proposal & Policy

Having decided the company and product a prospect moves on to submit a proposal to the insurer in the prescribed form. Proposal forms are generally long forms with several pages and large number of questions to be answered by the proposer. A personal assistance in filling the proposal correctly is very important. The proposal along with all the required documents like certificate of age, income, residence, identity etc. are submitted to the insurance company who takes a decision to accept the proposal (it is assumed here) after underwriting and issues a policy to the proposer (henceforth he is the policyholder). The first thing a customer shall do when the policy bond reaches him is to read the policy completely and thoroughly and (i) bring the policy to the issuing office for correction of errors, if there be any in the policy, and (ii) return the policy to the insurer within fifteen days of receipt thereof for refund of premiums, should he disagree with any of the policy conditions. In both these situations only the Agent helps the customer.

If the policy not cancelled under the above 'cooling off' condition and errors, if any, to be corrected, the policy has to be kept safely and with information to the beneficiary about how and where the policy is preserved. The Agent has a role here. He could go through the policy and educate the policyholder and his beneficiary about the benefits and conditions of the policy: For example, remember to effect an alteration in the policy after five years from date of commencement, you may take a note of in your policy wallet, of course I too will take a note of it in my records, the Agent would say. On such occasions there is no substitute for an Agent. The agent brings warmth in contractual obligations unlike a computer generated reminder.

Each premium due date is a date with the agent. He reminds the due date. He reminds the end of grace period too. One can pay the premium online.

From day one till the time the claim is settled, a professional Agent moves on as a member of his customer's family. Assume a situation where the proposer submitted a proposal online, got insurance coverage and policy bond, kept the policy safely in the office cabin, paid every premium online and before the receipt of any claim, died on way to workplace. The family or nominee will scarcely know that he was insured. In such cases the insurer's records will show that policy as a lapsed policy because premiums are unpaid from a certain date. Had it been a policy financed from salary the employer would have reported death of the policyholder to the life insurer. The relationship between the insurer and the insured is a close one of directness with no third party knowing about it. Had there been an agent in between he would have reported the claim to the widow/insurer of the deceased.

This writer has approached a hundred very senior people in government, public sector, academics and industry (who are also policyholders)[like Director, Vice President, CFO, Professors & Principals, General Managers, Partner in LLP etc.] to learn about their views on why Agents fail and how they can succeed in their career by enhancing their acceptability. The quotable responses and comments that I received may be summarised as follows: (i) Most of the life insurance Agents are not knowledgeable about life insurance and the market (ii) Most of the Agents do not visit their customers again except for new business promotion and (iii) Agents are not aware of TIME as a factor in marketing.

Agents are not Knowledgeable

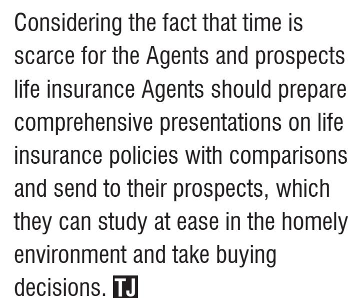
Knowing the subject of life insurance is equally important as knowing products and plans. Every product answers a specific concept of insurance or need felt by human beings. Thus a Term Assurance product answers 'what if I am not there'? Conversely, a pure endowment product or a product with partial or full maturity benefits answers the question 'what if I am there?' These benefits and their combinations should help the Agent explain the cost of (premium of) various products and help compare products of one's own Company and products of different Companies. Life insurance Companies must pay more attention to training of Agents.

Agents do not Visit Customers

By visit I have in mind keeping contact. Agents must keep in touch with his customers for all time to come. An Agent who does not keep in touch with the customer is often considered self-centred or selfish since his interest is deemed to be in closing a sale. If we expect our Councillor or MLA or MP to be in touch with the electorate it is natural that your customer expects you to get in touch with him subsequent to sale of insurance. Customers are demanding.

Time as a Factor in Marketing

Many people have pointed out the advantages of on-line sale is convenience in understanding and comparing products. It saves time. Unlike olden days prospects are too busy to share time with a sales man. This is a new culture brought in by on-line marketing Companies like Amazon. Selection of products/ services is more preferred in the privacy of home in consultation with the spouse. I shall quote here a couple of comments received; "People have better choices to pick a policy of their choice owing to disruptive channels such as policy bazar, renew & buy etc. that are more transparent in terms of comparing similar policies of different insurance Companies w.r.t key information and pricing". "Availability of on-line options". "Agent needs to upgrade on the skills…insurance products. … the financial market according to the changing business environment". "Professional Agents are good in all respects. Give better training to professional Agents". "Agents do not have full knowledge of policy details."



Considering the fact that time is scarce for the Agents and prospects life insurance Agents should prepare comprehensive presentations on life insurance policies with comparisons and send to their prospects, which they can study at ease in the homely environment and take buying decisions. TJ

1 Figures are taken from IRDA Annual Reports of the relevant years

2 IRDA Annual Report 2014-15, Pp 73

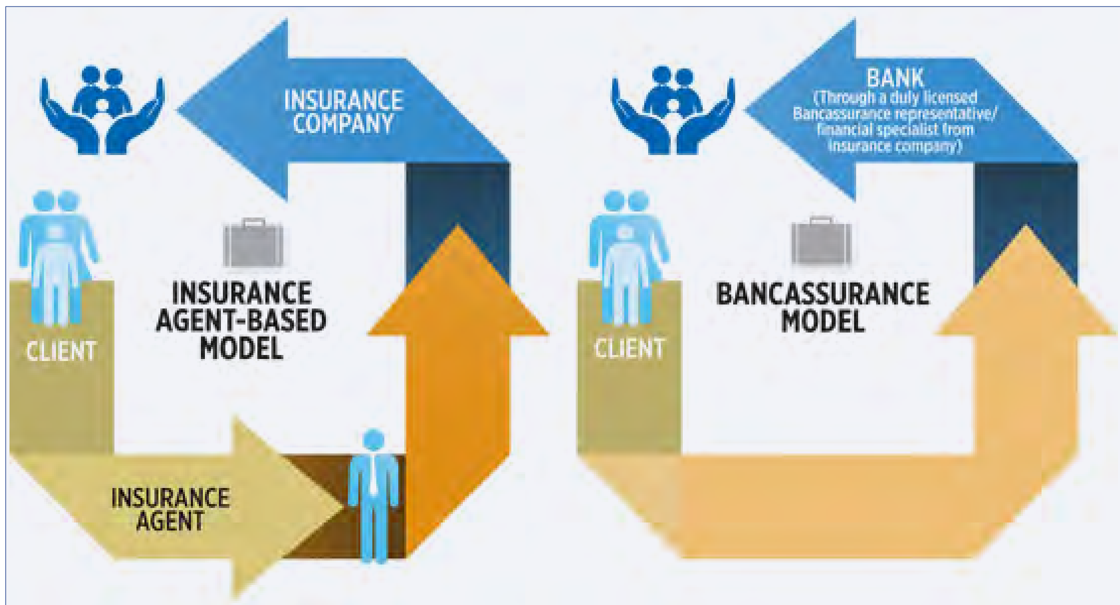
3 Figures are based on IRDA Annual Reports of the relevant years

4 www.bbc.com/news/10108284

5 En.wikipedia.org dated 30th May, 2016.

6 Section 64VA(1) and (2), Insurance Act, 1938

Challenges Faced by Indian Banc assurance Channel



Insurances Companies have increased their Platform for selling the product over the past few years. Along with the traditional way of selling through the Brokers & Agents, the insurances companies have started various in house sales departments, one of them being Direct Marketing Channel. Insurance in India is also witnessing a tremendous growth of Banc assurance channel. For most of the insurance companies Banca channel produces as much business as agents do. It can be rightly said that the bancassurance channel will soon emerge as one of the core channels for insurance business. Even though this has opened up the market for insurance, it also suffers from various drawbacks which are often neglected by the Banks & Insured. Let us understand the various challenges faced with some suggestive measures.

What is Banc assurance?

It is a Unique set up or arrangement between the Bank & Insurance Companies. It simply states that the Insurance Company will source the Business through the banks. It can also be stated that Banks sell Insurance as one of their core products, along with other products. Some Banks have one insurance company on boarded on their panel, while some have more than 2 insurance companies. The latter is known as “Open Architecture” which was introduced in 2016. Banks sell both life & non-life products to their customer.

The main reason why Banc assurance is increasing tremendously is because it provide the insurance companies with various customer portfolios & also because people often trust their banking partner, compared to the insurance employee.

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This can be seen in all banks including nationalized banks. This helps the Bank to earn some extra profit & helps insurance companies to increase their Business. All the individuals sitting in the bank can't sell insurance products. Such person needs to pass the IRDA exam & obtain SP certification to Source the Business. They also need to complete their training before entering into sales of Insurances business. As per imarc group, banc assurance is expected to grow at CAGR at 7% during 2021-2026. The most important reason why the Banca channel is growing at a faster pace in India is mainly because the revenue or income earned by the banks on the sale of insurance products is relatively high as compared to the other third party products. Also it helps the insurance company to have boarder clients from the Banks database.

Even during the Covid 19 pandemic which led to months of lockdown followed by significant fall in customer walk-ins to the branches, still the banks were contributing to their share of business. The main reason why Banks were able to perform even after lockdown was that they adopted Digital Sales Platform quickly. Most of the Bankers working from Home and sold the product from their Homes only, post covid also, it is seen that most banks prefer digital mode of selling. But even after numerous advantages of the channel, it also faces various challenges which need to be addressed.

Why bancassurance is important?

According to the Life Fact book published by Insurance Information Bureau of India in 2019, in 2017 the channel introduced open architecture since then the no of new business and total business was increasing. In 2019, bank as a corporate agent, emerged as a leading channel contributor for the life insurances business. In 2015-2016, the contribution of the banks to new business was 32% and Individual Agents contribution was 36%, but in 2018 -19 the contribution of the bank to the new business increased to 40% whereas the Individual Agent Contribution dropped down to 31%. Even in terms of Total business, the share of the Bank as Corporate agent increased from 25% from 2015- 16 to 32% in 2018 -19.

Hence it can be clearly understood that banks are the major contributors to the life insurances business. Close to 50% of the premium actually comes from banks & secondly the revenue earned by the Banks by selling Insurance Products is on the higher side compared to other third party products.

Distribution Channel	Share in New Business		
	2015-16	2019-20	Transition
Corporate Agents (Banks)	32%	40%	8%
Individual Agents	36%	31%	-5%
Brokers	3%	3%	0%
Corporate Agents (others)	15%	13%	-2%
Direct Marketing	11%	11%	0%
Others	3%	2%	-1%

Distribution Channel	Share in Total Business		
	2015-16	2019-20	Transition
Corporate Agents (Banks)	25%	32%	7%
Individual Agents	48%	42%	-6%
Brokers	2%	3%	1%
Corporate Agents (others)	16%	14%	-2%
Direct Marketing	6%	8%	2%
Others	2%	2%	0%

Apart from new policies, banks also contributed a major chunk in case of sum assured, from 30% in 2015 - 16 to 32% in 2018 - 19. Also the bank channel is the highest contributor of the annualized premium, it increased from 43% in 2015 16 to 51% in 2018 -19.

1) **Dominances of the Banks over the Insurance Companies**: Even though all the banks are selling the insurance of a particular company, it is still observed that the dominance of the Banks Staffs is more, over the Insurances employees. This leads to constant conflict between both the entities. Many challenges are especially faced by Insurance employees of those banks which follows the practice of open architecture in selling their Insurance product of different insurance companies.

2) It is always seen that when more than two insurance companies

compete for the business, the insurance company who has better relation with the bank staffs are preferred, without due concern about the needs & requirements of the customers.

a. **<u>Multiple insurances companies sourcing from the Same Bank & Branches</u>**: One of the main reasons why banks dominate the insurance company employees is because of the immediate available options to the Bank employees. RBI & IRDA Introduced Open Architecture in banca in order to provide various options to its customers, but in some cases it works as per the benefit of the bank employee. It is often seen that some employees prefer a certain insurance company and only sell the particular company's product, this actually leads to unfair & inappropriate competition in the banks & the primary reason behind introducing the open architecture, which was to make it customer centric, is completely lost.

3) Banks staff are over loaded: Bankers are over loaded with targets of the different products, they have product like General Insurance, Current Account, Personal/Business Loan, Life Insurance, Credit card to be sourced from the customers. This overloads the bank staff with the multiple target. Insurance even tough yield huge revenue, bankers often find it difficult to sell. Also in life insurance there are multiple product option which further overloads the bank staff.

4) Inadequate training: it is observed that training is more focused towards the products & the login process, even the trainers assigned for the training usually restrict themselves to the product training. Mostly it is observed that training for the various important aspect like Anti Money Laundering, KYC process, Various Underwriting Guidelines, Regulatory Rules & Regulation etc are not provided to the staff, Hence staff does not have any knowledge about the guidelines. Sales Team usually does not get any sort of training of the required guidelines. In such cases sales staff can commit multiple errors unintentionally.

5) **<u>Conflicts between the Banking related products:</u>** Since Banking related products are traditional products and it is often known to the customers since it is in market for quite some time now, products like FD,RD, Senior Citizen Pension Scheme are the most popular ones. Customers prefer those products even if some provide low returns comparatively, but since banks are allowed to sell insurance to its customers, it is often seen that the bankers & insurance employees showcase the false negative aspect of the Banking product in order to sell insurances. For example, if someone wants to book an FD for 5years duration with single investment amount of 5 years, those customers are offered Guaranteed Returns Insurance product. A problem that arises here is that during the cross sell of the product, employees provide a lot of negative feedback and view about the banking related products to the customers, and this sort of selling not only reduces the market for banking products but also sometimes puts customers into a dilemma related to his purchase of the product.

6) **<u>Lack of interest among the some bankers to sell Insurances:</u>** This is often seen in Nationalized Banks where in, most of the bankers do not have a mandatory insurance target in their KRA. This leads to low penetration of Insurance through Nationalized Banks. Also it is observed that most of the insurance companies lack the support of the bank staff for the insurance sales.

7) **<u>Unethical practices:</u>** A lot of unethical practices are carried both by the insurance companies & bank employees. It is also seen that such practices are never brought to the notice and it in turn leads to mis-selling of the insurance product. Customers are given incomplete information about the product and its features, for example, mostly insurance products are mid-term or long term investment products, it means that customers need to pay at least 5 years to get the benefit of maturity but in order to close the deal, they are sold as single investment product, where the customer needs to pay the premium only once. Secondly sales representatives provide incorrect information to the underwriters about the customer profile, in turn a proposals which are not eligible are written by underwriters, because in Insurance Setup, the Sales people are Primarily Known as "First Underwriters".

8) **Much depends on Banks for Customers KYC Details**: it is largely believed that KYC done by the banks are the most appropriate ones hence most insurance company accept the KYC done by the banks. While logging in any proposal, automatically all the details of the customers are fetched by inserting their CRN no or Account No. In most of the Cases, only a Bank Statement is required to show the relationship of the customer with bank. The customer's financial background and banking habits are hardly known by the insurance companies in some cases.

9) **Easy Process & Quick Issuance:** This problem arises usually in Open Architecture Setup where there are 3 insurances companies selling their products. All the insurances companies are adopting easy login process & fast issuances, because a Bank prefers the insurer who issue the policy fastest. Due to this, most of the information is not provided to the underwriters since it can trigger additional requirements or medical requirements and further delay the process. Sometimes, a few documents are waived off by the insurances company itself. For example Pre Approved Sum Assured (PASA), some companies waive off Medical Requirement or Financial Requirement.

10) **Give & take policy between the staffs:** In open architecture it is seen that insurance employee who supports the Branch Staff in their day to day activities & other targets are given the maximum insurance business. This in turn puts a lot of pressure on the insurance employees to canvas Credit Cards, Demat Accounts, various Loans, And Current account etc. In order to get the Insurance Business, Insurance employee often involve himself/herself into the banking related activities. It is often seen in Banks that an Insurance employee helps the customer in opening the Dmat account, calling the customers for the loan requirements, forcefully selling the Credit card to customers, this might be seen as a helping to the bank employees, but in reality this is something they are not allowed to do. Secondly it is also seen that insurance companies' employees provide treat & gifts to the bank manager & the SP. Unfortunately this is not treated as wrong practices because it happens during special occasion like Diwali & Birthdays.

11) **Confusion between the regulators:** this is one of the most serious problems faced by Banc-assurance. Customers are unaware about the correct regulators of the industry. They often feel that RBI is the regulatory body for insurance since they are sold in Banks. Bankers don't hesitate to tell the customer that RBI regulates the insurance for Banks.

The challenges need to be overcomes with the proper guidelines by the Insurances companies, banks & the regulators. Unethical Practices not only damage the reputation of the Bank & the Insurance companies but it also creates a negative image in the mind of people about the Industry as a whole. Let us look the unethical practices with are seen on the large scale:

- Not disclosing the terms & conditions of the policy to the customers – for example all the Insurance Products have a lock in period of at least 2 or 3 years, Surrender of the policy even after 3 years but before maturity, and attracts some surrender charges.
- Selling Insurance Guaranteed returns products as "FD with Extra Features." It is largely seen in the case of banks that

guaranteed products are sold on same lines with FD, PPF. In most of the cases, this is not seen as an unethical Practice because it is seen as a comparison between the products. But in most of the cases, incorrect information is given about the FD & PPF & it is showcased as a bad investment option compared to insurance policy since it attracts tax on maturity. FD is a single investment product and suitable for someone with Short term goals.

- Mis selling ULIP product. ULIP being a market linked product, requires lot of explanation & disclosures to the customer, ULIP is a little complicated in nature and sometimes confuses the customers about the funds in which he needs to investment. In case of ULIP the product is sold as “Mutual Funds with Life Cover”, the product features are not correctly disclosed during the sales. ULIP attracts four types of Charges, in most of the cases the charges are not disclosed to the customers & sometimes, wrong funds are suggested as per the customer risk appetite, to attract low FMC charges.
- Locker Facility is provided to the customers who signs for insurance investment, they are told that investment is mandatory for availing locker facility from the banks as per the RBI guidelines. Such policy will hit insurance persistency in the long run. E.g. If someone purchases an investment product for 5 years with annual premium of 1 lakh just to get locker facility & if he surrender the locker after 2 or 3 years, there are high chances that he might also surrender the policy.
- Forgery of the signature is one of the main issues faced at this channel. Since banks have the sample signature fed into their system, it is very easy for forgery to take place. In order to avoid the allegation from the customers end, the staff takes the customers signature in one set of documents & submit completely different forged documents to the insurance company.
- Pre mature closure of the FD- Normally FD is booked for the period from 7 days to five years. The FD rates depends from bank to bank. Bank always ask the customer to close their FD before maturity date this practice of bankers leads to customer losing his interest and also impose penalty for the premature closure. The unethical practices here is that bankers who ask the customers to close their FD pays the penalty which was impose to the customer. Ex: if a premature FD attracts the penalty of 2500/- after the customer paying to the bank, the SP returns the penalty amount back to the customer or it is completely borne by the Insurance employees or it is shared equally by both.

Due to various issues faced both by the banks & the insurances companies, strict regulation & guidelines need to be in place alongside various initiatives at the insurances company level.

- ➢ Continuous training on AML Guidelines, KYC, and various rules & regulations need to be provided to the sales force along with product training & personality development program.
- ➢ Risk & Compliance of the insurance company needs to protect the customers’ data from leaking. Sales force should have all the customers’ personal related information & documents on official mailing address strictly. Banks also need to follow proper protocol while sharing customers’ information with the insurance company. No documents & sensitive information should be shared on unacceptable digital platform.
- ➢ Bank data should be provided to insurance company employee for cross selling under the strict supervision of the seniors & the employee should be held accountable for each & every contacted customer
- ➢ All the certified SPs for life insurance should be monitored closely by their supervisors on the grounds of ethical practices & to ensure that no conflict between the insurance product & bank product arises.
- ➢ All the Moral hazards Questionnaires need to be verified and approved by the seniors of insurance company.
- ➢ Insurance company employees should have restricted visiting time for business, no employees of insurance should be allowed post customers hours in bank.
- ➢ Investment policies need to be carefully verified. Since it gives 10 to 15% of Life insurance cover, so one who is not eligible for term plan might opt for this option since such cases fall

under non - medical purview and there are chances of misinterpretation of the product.

- Verification call is needed to analyse not only the confirmation on the understanding of the product details but also need to verify whether the customers' personal information is provided correctly by the sales force. In most of the cases, customers give all the information but during login, the Salesforce deliberately hides the information in order to avoid the declinature of the proposal. E.g A customer might have declared that he is a smoker but in order to give him the policy at the lower rate a sales person might have given him the non-smoker rates.
- Sales compliances training & refreshers need to be conducted from time to time, in most of the cases the sales employees are not aware about the sales practices & ethical business which might lead to unintentional or unknowing mis-selling. Since the sales resources of the insurances companies are often under great pressure to achieve their goals & targets it required that the backend support them with required training.
- Sales Support team needs to interact with the sales team on regular basis to understand the various challenges faced by them on daily basis. Sales staff should to encourage to provide feedback about their bank partners on a monthly basis through survey or interaction.
- Whistle blowing mechanisms need to be incorporated & should be functional, every employee irrespective of seniority should be informed about the whistle blowing technique of the company. Since employees on the field are the best resources to highlight any sort of fraud or malpractices happening in the field, their identity should be protected & enquiry needs to be conducted to understand the exact issue. Employees should be encouraged to inform the company about any fraud happening in the system.
- Lastly sales resources should report any login happening of the bank personnel employees for mere activation, such policy have a very chances of cancellation the next year which will affect the company's persistency level. And underwriter also need to be careful while underwriting such cases.

Conclusion

Bancassurance has emerged as one of the most significant contributors of Life Insurance business in India. As per Insurance Information Bureau (IIB), in 2019, 52% of the total annual premium was contributed by banks alone, this means that other channels only contributed 48% of total premium. On the other hand, by selling Insurance, the banks are generating better revenue for themselves also. But both the entities need to know that along with revenue & business even the number of frauds & malpractices are considerably increasing. Banks need to train their staff & need to keep a strict vigil on their SP. Insurance Companies need to train their employees, need proper sales compliances & Vigilance team and also they should encourage their employees to provide feedback from time to time about their partners & report any fraud and unethical practices through whistle blowing. Because Insurance is a pooling business, whenever we underwrite non- eligble proposals. We will be affecting other policy holders as well. Secondly we will be losing the interest of the people on the insurance itself in the long run & such types of policy will also affect our relationship with our external partners. For instance, it will affect our Reinsurance Rating. TJ

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Insurance Information Bureau Life Insurance Fact Book 2019-20

Metaverse and Life Insurance: The required Crossover

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Abstract

Metaverse, a virtual network aiming to take virtual interactions to the next level is the latest buzz word in the technology industry[1]. Metaverse market is expected to be at $800 billion in 2024[2] and with a big giant like Facebook rebranding itself as Meta[3], the impact of Metaverse on the way in which people would interact in the next decade, can only be left for imagination. Life insurance industry is expected to increase at a CAGR of 5.3% between 2019 and 2023[4], and can look at Metaverse to provide increased customer experience along the complete policy life cycle and even beyond that. This study aims to understand how metaverse can aid in improving customer experience in Life insurance industry and highlights a few challenges which are to be addressed.

Keywords

Metaverse, Augmented reality, Virtual reality, Avatar, Virtual Network, Multiverse.

Introduction

Most of the life insurance companies in India are in the early stages of implementing predictive analytics across areas to improve customer satisfaction, increase sales and better customer retention[5].

With machine learning and artificial intelligence picking up pace in the Life insurance sector, technology has become an integral part in making customer centric strategies[6]. Also, with the outbreak of the global pandemic, the expectations of the customers have evolved[7]. Life insurance companies seeking to provide that extra comfort to customers must step up with the latest technological platforms

available. Satisfied customers continue the relationship and encourage their friends and family members to buy insurance policies from a specific insurance company[8]. Customised consumer experience can be considered as a means to improve customer satisfaction.

Augmented reality and virtual reality are already ruling the gaming world, growing at a CAGR of 18.5% from 2021 to 2026[9]. The word ‘Metaverse’ is a portmanteau of the Greek term ‘meta’ and the English word ‘universe’, with meta meaning beyond, signifying a different world beyond this existing universe[10]. The idea of Metaverse takes the whole internet experience and upgrades it to a three-dimensional space. This means that with the right gadget, virtual reality headsets, individuals can instantly teleport themselves to their favourite store and potentially try clothes from the comfort of their home before deciding on ordering them[11]. The mode in which people interact in the metaverse is through their digital avatars[12]. These digital avatars can move in the virtual space available on the metaverse and do various things such as shopping, playing games, attending music concerts. With the introduction of metaverse, the way in which data has to be treated will change. Masses of data will be captured, mined, and acted upon instantly[13]. The interactions of the digital avatar in the metaverse finds several use cases. A recent example is where Justin Bieber can be observed doing a virtual concert on the virtual space[14]. One more useful case may be that of individuals attending lectures and interacting with their instructor as if they were with them in real time and space[15].

Insurance can play a crucial role in the scheme of things. As there are digital assets such as NFTs (Non-Fungible Token), virtual space in the metaverse which are already available for sale (virtual real estate), these can be insured, providing security to the individual. Though there is lot of uncertainty in insuring digital assets, there will be a market for NFT insurance products.[16]

Customised strategies for specific individuals can be conceptualised basis the data captured in the metaverse. Life insurance companies are already into customised strategies based on their customer behaviour. So, can the ideas or platforms made available in metaverse be used by Life Insurance companies to further enhance the customer experience is the question.

Metaverse for Life Insurance

The mode of interaction in metaverse is through avatars. If it has to be put bluntly, multiverse cannot exist without avatars which is the manifestation of people using and inhabiting the virtual space[17]. Avatar would be a unique identity of an individual in that virtual space[18]. Facebook (now Meta) is experimenting on avatars that reconstruct human appearance in the virtual space with utmost precision[19]. Huge amounts of data would be captured at every step of these interactions and would be acted upon instantly, thus making every potential transaction feasible in the virtual world.

Life insurance has evolved in leaps and bounds in terms of acquisition of new customers[20]. Customized marketing campaigns, predictive modelling has made the process of acquisition quick and cost efficient.

Once acquired, retention of the policy holder and extending out the relationship plays a significant role in creating better customer experience. Lapsation is one of the challenges that Life insurance companies face, which has to be looked at. An effective combination of ideal product placement at the stage of acquisition and timely cross-sell/up sell can help offset the negative effects of lapsation and strengthen the relationship to the core[5].

If the data points related to several interactions captured in the multiverse can be tapped and analysed by Life Insurance companies, an avatar can be recreated which becomes the buddy of the individual.

This avatar knows about the behavioural aspects of the individual, risk appetite, and various other interests and with continuous learning becomes a personalised assistant which we can term as ‘InsureBuddy’.

This InsureBuddy captures relevant data with the permission of the individual and helps in getting personalised product recommendations. InsureBuddy would be the representative of the life insurance company and would assist the individual at every stage of the policy cycle.

Assuming infrastructure required for Metaverse is in place, other prerequisites which would be required in making this concept a reality:

- Unique identification Avatar with social security codes which can

be accessed with the individual's permission to fetch personal information required for acquisition

- Key events of the individual stored on their social security codes
- These key events can be investment patterns of the individual, personal events such as educational enrolments, marriages etc.

Potential advantages:

- Customised product recommendation which would eventually lead to loyalty and improved customer relationship
- Simplified contract creation
- Better customer onboarding experience
- Improved customer life cycle
- Better opportunities to cross sell/ up sell as per the needs of the customer
- Referrals from the existing customers in the virtual world

Customised product recommendation

Customization can help improve customer satisfaction[21]. As the digital avatars would be the exact replica of the individual, real time health parameters can be monitored[22], and the individual mortality risk cover cost of the individual can be customised taking other lifestyle related parameters into consideration. Thereby, customized pricing can be made available for the individual. Also, basis the risk appetite and other investment related to be analysed and the product can be placed which would be enhance customer experience in terms of suitability and satisfaction.

Simplified contract creation

The digital disruptions lately have helped Insurance industry in terms of cutting short the forms and documentation required. In the metaverse, one of the fundamental concepts is block chain, entering a smart contract leading to real time issuance[23]. The InsureBuddy would be there with the customer whenever required 24X7 without any operational constraint. This is the advantage metaverse allows us to have, taking customer support to new heights.

Better onboarding experience

As each and every minute detail is taken into account right from the suitability analysis to product pricing, the experience of the customer while onboarding would see a significant improvement. And, as all this has been done, with the customer sitting in the comfort of their own place, without any inconvenience, and at their will, surely it is a game changing experience.

Improved Customer life cycle

The customer would have their InsureBuddy handy at every stage whenever they feel required customised as per their needs offering varied services in real time with no effort.

Cross Sell/ Up Sell opportunities

As the InsureBuddy have access to multiple parameters, new products can be proposed to the customer suiting their goals and objectives. This would eventually strengthen the relationship between the insurer and insured.

Referrals/New leads

InsureBuddy may ask the permission of the Customers to interact with their friends and family to further expand the relationship and cater the benefits to larger audience via virtual interactions.

This would enhance the branding and at the same time bring new customers onboard at a quick turnaround.

Challenges:

- Data security and privacy
- Adoption and acceptability of block chain globally
- Pace at which metaverse comes to reality
- Multiple metaverses
- Unification across multiple metaverses
- Cost to acquire and support these technologies
- Skillset to operate and maintain
- Adoption of metaverse by customer

Data security and privacy

Metaverse will require new personal data and privacy protection systems to ensure the safety of the individual's identity and possessions in the virtual world[24].

Adoption and acceptability of block chain

Blockchain technology is the foundation of cryptocurrencies and NFTs, which would be used in Metaverse for the transactions to happen.[25] Thus, adoption and acceptability of technology and the laws pertaining to block-chains becomes paramount for the pace at which metaverse is adopted

Zuckerberg estimates it could take five to ten years to bring the key features of metaverse mainstream though some are up and running[26]. So, the pace at which metaverse comes to a reality is a reason of concern.

Multiple Metaverse and Unification

Multiple companies like Meta, Microsoft are running in the competition of the metaverse market already, so it is not that there would be a single unified concept of metaverse. There can be multiples of metaverses leading to a virtual multiverse[27]. This can be a challenge in terms of unification of data across virtual worlds.

Cost and Skill

Cost and skills required to implement and handle metaverse can be seen as another challenge as this is a latest trend and the kind of fallouts which could occur are still to be explored.

Adoption by customer

Given that the thought of living in a virtual world is frightening, we have to sit back and look how the metaverse would go in with the expectations of the people in terms of the scale of adoption and the time that one is willing to spend on the parallel universe.

Conclusion

Weighing the potential of metaverse, it is quite balanced to expect metaverse to have a lasting impact on the future and may shape it in a different way[28]. As Life insurance in India is still in the early stages of implementation of artificial intelligence and machine learning algorithms, the concept of metaverse can seem farfetched. If not the whole concept of multiverse, Life insurance should strive to achieve data points at various levels to build customised strategies and achieve better costumer experience throughout the policy life cycle. TJ

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ULIPs Vs Mutual Funds - A Comparative Study

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Among the various investment options available to Indian Investors, the one which is in the limelight is Mutual Fund. No other investment avenue receives the kind of publicity and media time which MFs get. This is due in no small measure to the efforts of AMFI (Association of Mutual Funds in India) which has been sponsoring a long running campaign under the very catchy title "Mutual Fund Sahi Hai" with none less than MS Dhoni as the brand ambassador. There is no denying the fact that MF as an industry and as an investment opportunity has captured substantial mindshare of Indian Investors.

The aims of this study are:

- To explore the similarities and differences between ULIPs and Mutual Funds.
- To study the cost structure of these two investment options.
- To look at the size of the ULIP and Mutual Fund markets in India and share of LIC and private companies in it.
- To find out why Indian investors are moving towards MFs in droves.
- To investigate whether MFs REALLY give "great" returns or is it only a myth or marketing hype created by the industry and "distributors".
- To find out as to why financial advisors prefer selling MFs over ULIPs.
- What the life insurance industry can do to capture a bigger slice of this huge retail savings pie.

Introduction

ULIPs (Unit Linked Insurance Plans) are life insurance plans which are akin to MFs to some extent. The performance of a ULIP depends on the performance of the underlying assets in which investment has been made by the life insurance company, which has been chosen by the Policy Holder. Unlike non-linked life insurance policies, there is no guarantee of any kind that is offered to the Policy Holder with regard to the amount that Policy Holder will receive at maturity. Only a minimum amount that will be paid to the nominee in case of death of the PH is assured. Like MFs, the investment risk is borne by the investor Policy Holder.

Both MFs and ULIPs are NAV (Net Asset Value) based investments which means that the value of the investment of the investor/PH is known on a daily basis. The NAV will grow/fluctuate depending upon the growth/de-growth of the value of the asset in which the fund has been invested by the LI Company or MF AMC.

The choice of asset classes offered to the investor under MFs is truly vast. In fact, it is a problem of plenty and definitely confusing! Particularly so for a relatively less informed investor, who form the bulk. Within each of the two broad categories of Equity and Debt, there are numerous sub categories. Under Equity, there are options like large cap, mid cap, small cap, flexi cap, index, thematic etc. Similarly under Debt category, there are short term, ultra short term, FMP, corporate bond, liquid fund, etc.

ULIPs offer relatively easy to understand fund options to the PH. Four fund types of Growth, Balanced, Secured and Bond are common which move from Equity to Debt with hybrid in between. A few more fund options like "Life Stage" and "Asset Allocation" are offered by some companies.

The key feature which makes ULIPs a great investment option and gives them an edge over MFs is the facility of **"Fund Switching".** The ULIP PH can "switch" from any fund to any fund anytime as per her choice which may be based on her reading of the market. This option can be exercised online. Also, this can be done any number of times, with a few switches per year being free. **Unlike MFs, this switching does not have any tax implications**. If a MF investor wants to shift from equity to debt, for example, he will have to fully exit from the equity scheme and enter the debt one. This will have tax implications and also entail payment of entry and exit loads as applicable.

ULIPs Vs MFs

The other **similarities** between ULIPs and MFs are:

- Transparency: Expenses/Charges are clearly communicated to the investor/PH.
- Investment portfolio declared regularly which is available in the public domain for anybody to peruse.

Following are the key **differences** between ULIPs and MFs

Sl No.	ULIPs	Mutual Funds
1	Offers Insurance + Investment	Only Investment
2	Mortality premium recovered is refunded at the time of maturity (Eg. LIC's SIIP).	No Death risk covered. Hence, no mortality premium is applicable.
3	Provision of Guaranteed Additions or "Fund Boosters" to the fund at periodic intervals.	No such provision.
4	Medium to long term horizon	Short to medium term horizon
5	Lock in period of 5 years	Lock in period of 3 years under ELSS (Equity Linked Savings Scheme). No lock in period for other funds. However Short Term Capital Gains Tax applicable for early exit along with applicable Exit Load.
6	Maximum expenses allowed (Reduction In Yield) is 2.25% for a term of 15 years and above.	Expenses are capped at 2.25% for equity and 2% for debt schemes with additional 0.3% allowed for penetrating into B 30 cities.

Sl No.	ULIPs	Mutual Funds
7	Income Tax deduction u/s 80C available if Sum Assured is 10 times of AP (annualized premium)/ Single Premium.	Available for ELSS (Equity Linked Savings Scheme) only.
8	Partial withdrawal/ SV/ maturity fully exempted from tax if AP is up to 2.5 lakh (u/s 10(10(D)). In case AP is more than Rs 2.5 lakhs, the amount received in excess of what is attributable to the first Rs 2.5 lakhs will be treated like LTCG as applicable to equity oriented mutual funds.	STCG (Short Term Capital Gains) or LTCG (Long Term Capital Gains) tax will be applicable depending on the duration from date of investment. Long Term Gains received will not be tax free beyond 1 lakh in a year.
9	One can "switch" between funds at a nominal cost while remaining invested in the scheme.	This is not possible in MFs. One has to exit completely from one scheme and enter another.
10	"Switching" has no tax implications and can be undertaken any number of times.	The above action has tax implications and applicable exit loads need to be paid.

The Size of the Market

For the last few years, the inflows into MFs are creating records, month after month, pandemic or no pandemic. The following facts speak for themselves.

- The average monthly SIP inflows were Rs 3,660 Cr in FY17, Rs 5,600 Cr in FY18, Rs 7,725 Cr in FY19, Rs 8,340 Cr in FY20 and **Rs. 8,007 Cr in FY21**. Even during the gloomy days of lockdown/job losses/migrant labour crisis, investors poured in almost the same amount of money which they did during the "normal" times!
- There are 44 AMFI registered Mutual Funds in India offering over 2500 schemes.
- **The AUM of Mutual Funds in India is around Rs 38 Lakh Crore as at 31.12.2021.**
- The AUM of the Indian MF Industry has grown from ₹6.11 trillion as on December 31, 2011 to ₹37.73 trillion as on December 31, 2021 more than 6 fold increase in a span of 10 years.
- The MF Industry's AUM has grown from ₹16.46 trillion as on December 31, 2016 to ₹37.73 trillion as on December 31, 2021, more than 2 fold increase in a span of 5 years.
- **The number of mutual fund investors is estimated at around 3 Crore.**
- **The number of MF folios were 12.02 Crore as at 31.12.2021.**
- **Currently, there are over 4.02 Crore SIP accounts with MFs in India.**

ULIPs were being sold in huge numbers till 2008 when the regulatory restrictions on them were minimal. The intermediaries were receiving incentives at par with non linked plans. In fact, ULIPs were "mis-sold" by LI Companies. The IRDAI made new product regulations for linked plans which brought in several restrictions on the structure and benefits of ULIPs. The most important feature of these regulations was the cap on "charges" that could be recovered by LI Companies from the premium paid by policy holders. This cap resulted in a drastic reduction in commission payable to agents and consequently, a huge drop in its sales. LIC of India particularly, almost stopped the sale of ULIPs from 2008 to 2015. Only after the launch of "Endowment Plus", the sale of ULIP became a talking point in LIC. However, since there was only 1 product, the sales were negligible compared to the overall sales of LIC. After the launch of "Nivesh Plus" and "SIIP" on 2.3.2020 did ULIPs sales pick up, even though the volumes continue to be very low. In the meanwhile, private LI Companies started selling ULIPs in a big way, capturing almost 99% of the linked new business market share. In fact ULIPs made up over half of their overall individual life insurance business for many years which has now come down to a third. The following data is revealing.

Linked New Business Performance of LIC and Private Insurers as at 31.3.2021: PREMIUM

Parameter	SP	NSP	Total
Absolute Volume: LIC	667.08	67.01	734.09
Ab Vol: Private Insurers	3350.15	18029.09	21379.24
% to Business Of LIC	2.35	0.39	1.62
% to Business of Pvt. Insurers	23.91	33.21	31.30
Market Share of LIC (%)	**16.61**	**0.37**	**3.32**
Market Share of Pvt. Insurers (%)	83.39	99.63	96.68

(Absolute volume is in Rs Cr.)

Linked NB Performance of LIC and Private Insurers as at 31.3.2021: Number Of Policies

Parameter	SP	NSP	Total
Absolute Volume: LIC	43753	32762	76515
Ab Vol: Private Insurers	68198	1674932	1743130
% to Business Of LIC	4.44	0.16	0.36
% to Business of Pvt. Insurers	30.94	24.16	24.37
Market Share of LIC (%)	**39.08**	**1.92**	**4.20**
Market Share of Pvt. Insurers (%)	60.92	98.08	95.80

Taxation of ULIPs

The premium paid under a ULIP used to enjoy deduction u/s 80 C and the maturity proceeds were tax free under u/s 10(10(D)) of Income Tax Act 1961, just like non-linked policies. The maturity proceeds of a life insurance policy are tax free u/s 10(10(D)) if the Capital Sum Assured of the policy is more than 10 times of the annualized premium. This was applicable to all life insurance policies including ULIPs. This advantage enjoyed by ULIPs was blunted by a new provision introduced in the Finance Act for FY 2021-22. According to this provision the proceeds of maturity/surrender will be tax free only if the annualized premium is upto Rs 2.5 lakhs. If the annualized premium is more than Rs 2.5 lakhs, the part of the proceeds attributable to the premium in excess of Rs 2.5 lakhs will be taxable. This amount will be taxed like Long Term Capital Gains applicable to equity mutual funds.

In other words, under ULIPs

- Returns are tax free subject to the conditions mentioned u/s 10(10(D)), i.e. if the Capital Sum Assured is at least 10 times the annualized/single premium,
- No Capital Gains Tax on payouts under policies with annualised premium up to Rs 2.5 lakhs. Returns attributable to the premium in excess of Rs 2.5 lakhs will be taxed like equity MFs.
- The premium paid under a ULIP is deductible u/s 80 C subject to its well-known conditions.

Taxation of Mutual Fund Returns

As far as mutual funds are concerned, the gains under any type of mutual fund, be it equity or debt, are NOT fully tax free. Long Term or Short Term Capital Gains tax is applicable depending on the duration of holding of the units by the unitholder. If the units are redeemed within one year in case of equity and within 3 years in case of Debt schemes, STCG tax is payable and when redeemed after this period, LTCG is payable by the investor. There is no way to get fully tax free returns from mutual funds.

Equity and Equity Oriented Funds

- Long Term Capital Gains Tax payable if holding period is greater than 12 Months; 10% after deducting Rs 100,000/- gain.
- Short Term Capital Gains Tax @ 15% no matter which tax bracket you belong to.

Debt Funds

- Long Term Capital Gains Tax if holding period is greater than 36 Months, tax is 20% with Indexation benefit.

- Short Term Capital Gains Tax: Taxable at Slab rate
- Income Distribution is taxable at slab rate

Cost Structure

As mentioned earlier, IRDAI has capped the "charges" that can be recovered by LI Companies under ULIPs. This cap is given below.

Duration Of the Policy	Charge (RIY)
5	4.00%
6	3.75%
7	3.50%
8	3.30%
9	3.15%
10	3.00%
11 and 12	2.75%
13 and 14	2.50%
15	2.25%

According to the linked product guidelines issued by the regulator, ULIPs have a cap on costs in the form of **Reduction In Yield**. At various durations starting from 5th policy anniversary till the end of the policy term, Reduction in Yield (RIY) will be calculated as the difference between Gross Yield and Net Yield, where Gross Yield shall be computed based on the actual accrual of all income elements i.e. premiums, income from investments as and when received and all actual debits. Reduction in Yield (RIY) is defined in the South African Actuarial Journal as the percentage-point reduction in annual return over the period of saving that is equivalent in overall effect to the erosion of value due to all charges. For example, a RIY of 3.5% p.a. means that you will pay an average annual fee of 3.5% over the term of the investment.

IRDAI has mandated that the net reduction in yield should not be more than 4% in the fifth year coming down to a difference of 2.25% by the 15th year and thereafter. So, if a fund value is growing at a rate of say 10%, the charges should be such that by the fifth year the net return should not be less than 6% and by the 15th year it should not be less than 7.75%.

It can be seen that ULIPs are "costly" in the initial years. They become "cheaper' as years go by.

The RIY of ULIPs of LIC of India is as under.

Sl No.	Name of ULIP	RIY (%)
1	Nivesh Plus, Option I	1.21
2	SIIP	1.57
3	New Endowment Plus	1.33

It can be seen that LIC of India is charging much less than the maximum allowed expenses. Similar is the case with other LI companies as well.

The cost to the investor in a MF is capped by SEBI by fixing an upper limit on the **Total Expense Ratio**. The maximum TER allowed by SEBI from 1.4.2020 is as under,

Assets Under Management (AUM)	Maximum TER as a percentage of daily net assets	
	TER for Equity funds	TER for Debt funds
On the first Rs. 500 crores	2.25%	2.00%
On the next Rs. 250 crores	2.00%	1.75%
On the next Rs. 1,250 crores	1.75%	1.50%
On the next Rs. 3,000 crores	1.60%	1.35%
On the next Rs. 5,000 crores	1.50%	1.25%
On the next Rs. 40,000 crores	Total expense ratio reduction of 0.05% for every increase of Rs.5,000 crores of daily net assets or part thereof.	Total expense ratio reduction of 0.05% for every increase of Rs.5,000 crores of daily net assets or part thereof.
Above Rs. 50,000 crores	1.05%	0.80%

In addition, mutual funds have been allowed to charge up to 30 bps more, if the new inflows from retail investors from beyond top 30 cities (B30) cities are at least (a) 30% of gross new inflows in the scheme or (b) 15% of the average assets under management (year to date) of the scheme, whichever is higher. This is essentially to encourage inflows into mutual funds from tier - 2 and tier

- 3 cities. As per the current SEBI Regulations, mutual funds are required to disclose the TER of all schemes on a daily basis on their websites as well as AMFI's website.

Let us take a look at the TER (taken from the website of AMFI) of MF Schemes of 5 representative types. The first 5 schemes are with **highest TER** and the next 5 are with **least TER** in that category.

1. **Equity Linked Savings Scheme**

Max/Min TER	Scheme Name	TER Date	Total(%)
1	HDFC Long Term Advantage Plan	1-Jan-22	2.04
2	Aditya Birla Sun Life Tax Plan	3-Jan-22	1.99
3	Sundaram Tax Savings Fund (Formerly Known as Principal Tax Savings Fund)	1-Jan-22	1.77
4	BARODA ELSS 96	1-Jan-22	1.74
5	Union Long Term Equity Fund	1-Jan-22	1.73
1	ITI Long Term Equity Fund	1-Jan-22	0.38
2	Mirae Asset Tax Saver Fund	4-Jan-22	0.4
3	Navi Long Term Advantage Fund	1-Jan-22	0.4
4	Indiabulls Tax Savings Fund	1-Jan-22	0.5
5	QUANT TAX PLAN	1-Jan-22	0.57

2. **Equity-Mid and Large Cap**

Max/Min TER	Scheme Name	TER Date	Total (%)
1	UTI - Core Equity Fund	3-Jan-22	1.93
2	BOI AXA LARGE & MID CAP EQUITY FUND	1-Jan-22	1.69
3	Nippon India Vision Fund	1-Jan-22	1.67
4	BOI AXA LARGE & MID CAP EQUITY FUND	12-Jan-22	1.66
5	ICICI Prudential Large & Mid Cap Fund	3-Jan-22	1.31
1	Navi Large & Midcap Fund	1-Jan-22	0.35
2	Axis Growth Opportunities Fund	4-Jan-22	0.46
3	Edelweiss Large & Mid Cap Fund	12-Jan-22	0.52
4	QUANT LARGE & MID CAP FUND	1-Jan-22	0.56
5	Kotak Equity Opportunities Fund	1-Jan-22	0.62

3. **Equity-Multi Cap**

Max/Min TER	Scheme Name	TER Date	Total (%)
1	BARODA MULTI CAP FUND	1-Jan-22	1.53
2	Sundaram Multi Cap Fund (Formerly Known as Principal Multi Cap Growth Fund)	1-Jan-22	1.49
3	L&T Flexicap Fund	3-Jan-22	1.37
4	Nippon India Multi Cap Fund	3-Jan-22	1.27
5	ICICI Prudential Midcap Fund	3-Jan-22	1.21

Max/Min TER	Scheme Name	TER Date	Total (%)
1	Aditya Birla Sun Life Multi-Cap Fund	3-Jan-22	0.19
2	Kotak Multicap Fund	1-Jan-22	0.22
3	Axis Multicap Fund	1-Jan-22	0.3
4	HDFC Multi Cap Fund	10-Jan-22	0.38
5	MIRAE ASSET FOCUSED FUND	5-Jan-22	0.39

4. **Debt- Hybrid**

Max/Min TER	Scheme Name	TER Date	Total (%)
1	L&T Conservative Hybrid Fund	3-Jan-22	1.61
2	HDFC Hybrid Debt Fund	1-Jan-22	1.38
3	LIC MF Debt Hybrid Fund	1-Jan-22	1.34
4	Nippon India Hybrid Bond Fund	1-Jan-22	1.27
5	UTI - Regular Savings Fund.	3-Jan-22	1.27
1	Parag Parikh Conservative Hybrid Fund	5-Jan-22	0.3
2	Navi Regular Savings Fund	1-Jan-22	0.4
3	DSP Regular Savings Fund	3-Jan-22	0.41
4	Kotak Debt Hybrid Fund	1-Jan-22	0.48
5	SBI CONSERVATIVE HYBRID FUND	1-Jan-22	0.56

5. **Equity-Flexi Cap**

Max/Min TER	Scheme Name	TER Date	Total (%)
1	Taurus Flexi Cap Fund	1-Jan-22	2.58
2	QUANT CONSUMPTION FUND	1-Jan-22	2.39
3	JM Flexicap Fund	1-Jan-22	1.82
4	LIC MF FLEXI CAP FUND	1-Jan-22	1.67
5	HSBC Flexi Cap Fund	3-Jan-22	1.38
1	ICICI Prudential Flexicap Fund	10-Jan-22	0.1
2	Mahindra Manulife Flexi Cap Yojana	10-Jan-22	0.13
3	Nippon India Flexi Cap Fund	10-Jan-22	0.35
4	PGIM India Flexi cap fund	1-Jan-22	0.39
5	Navi Flexi Cap Fund	1-Jan-22	0.43

It can be seen that the cost structure of most types of MFs is very much comparable with that of ULIPS. Only really big schemes with AUM in excess of Rs 50,000 Crores have low TER.

Therefore, the return which an investor will ultimately receive in a ULIP or MF will depend on the fund performance. Let us have a look at the performance of MFs over the last decade and more.

Returns: The Litmus Test

There is a huge hype created that MFs will give "great returns". But as is the experience of most people, these "great returns" have been received by "others"! The returns delivered by MFs under different scenarios were beautifully analysed by **Value Research (published in ET Wealth in Aug'2021).** The below four graphics tell an important story.

1. **The returns given by equity SIPs of around 10 years are very volatile, ranging from 12.7% to a paltry 0.5%.**

Even long-term SIPs not spared by volatility

SIP start date	SIP end date	Amount invested (Rs)	SIP final value (Rs)	SIP return (%)
January 1, 2011	July 31, 2019	10,30,000	15,83,920	9.8%
January 1, 2011	January 20, 2020	10,90,000	18,04,989	10.8%
January 1, 2011	March 23, 2020	11,10,000	11,36,612	0.5%
January 1, 2011	July 31, 2020	11,50,000	16,95,853	7.9%
January 1, 2011	December 31, 2020	12,00,000	22,03,981	11.7%
January 1, 2011	July 31, 2021	12,70,000	25,69,118	12.7%

Above figures are for SBI Nifty Index - Regular Plan; Source: Value Research

2. **The wide fluctuations in SIP returns can be seen in the below graphic; from a very good 16.3% to an abysmal -18.7%.**

But SIP returns have fluctuated wildly

SIP start date	SIP end date	Amount invested (Rs)	SIP final value (Rs)	SIP return (%)
January 1, 2017	July 31, 2019	3,10,000	3,35,904	6.2
January 1, 2017	January 20, 2020	3,70,000	4,32,908	10.4
January 1, 2017	March 23, 2020	3,90,000	2,82,744	-18.7
January 1, 2017	July 31, 2020	4,30,000	4,57,370	3.4
January 1, 2017	December 31, 2020	4,80,000	6,38,191	14.3
January 1, 2017	July 31, 2021	5,50,000	7,97,038	16.3

Above figures are for SBI Nifty Index - Regular Plan; Source: Value Research

3. **All the below SIPs were terminated on the same day after having run for 10/11/12/13 years. Irrespective of the duration, the returns are identical**.

Exiting on market peak of Jan 20, 2020

SIP start date	SIP end date	Amount invested (Rs)	SIP final value (Rs)	SIP return (%)
01-01-2008 (2008 market peak)	January 20, 2020	14,50,000	28,11,700	**10.5%**
01-03-2009 (2009 market bottom)	January 20, 2020	13,10,000	23,83,058	**10.6%**
01-01-2007 (1 year before peak)	January 20, 2020	15,70,000	31,28,122	**10.0%**
01-03-2010 (1 year after bottom)	January 20, 2020	11,90,000	20,30,900	**10.5%**

Figures are for SBI Nifty Index - Regular Plan; Source: Value Research

4. **Again, all the below SIPs were terminated on the same day. The returns after 10/11/12/13 years of remaining invested are really pathetic.**

Exiting on market bottom of Mar 23, 2020

SIP start date	SIP end date	Amount invested (Rs)	SIP final value (Rs)	SIP return (%)
01-01-2008 (2008 market peak)	March 23, 2020	14,70,000	17,63,105	**2.9%**
01-03-2009 (2009 market bottom)	March 23, 2020	13,30,000	14,96,354	**2.1%**
01-01-2007 (1 year before peak)	March 23, 2020	15,90,000	19,60,020	**3.1%**
01-03-2010 (1 year after peak)	March 23, 2020	12,10,000	12,77,200	**1.1%**

Figures are for SBI Nifty Index - Regular Plan; Source: Value Research

The moral of the story is simple: there is no guarantee that one will get “great” returns in MFs, even if one is patient enough to continue an SIP for a decade and beyond. Time of “Exit” is important, not the duration of the investment.

ULIPs by virtue of being instruments with a lock in period of 5 years are medium to long term investments, which is really great. Let us now look at the returns delivered by ULIPs of various types over different periods. Since there are many combinations of terms (6 months, 1 years, 3 years, 5, years, 10 years) and fund types (Aggressive, moderate, conservative etc.) possible, we will select a few of them as representative. **(Below data of CAGR of Top 10 ULIP Funds has been taken from "Morning Star.com")**

1. **Balanced Allocation, 3 Years**

Rank	Legal Name Of ULIP Fund	CAGR (%)
1	PNB Met Life - Balanced Opportunities Fund	19.3996
2	LIC of India - Jeevan Saathi Plus Balanced	17.6587
3	LIC of India - Jeevan Saathi Plus Secure	16.6818
4	Tata AIA Life - Whole Life Stable Growth Fund	16.2847
5	LIC of India - Money Plus I - Balanced	16.2117
6	LIC of India - Money Plus Balanced	16.0825
7	Tata AIA Life - Life Balanced Fund	15.6502
8	Tata AIA Life - Aggressive Flexi Fund	15.4372
9	Exide Life Active Asset Allocation Fund	15.2962
10	LIC of India - Future Plus Balanced	15.2093

2. **Balanced Allocation, 10 Years**

Rank	Legal Name Of ULIP Fund	CAGR (%)
1	LIC of India - Jeevan Saathi Plus Balanced	13.1219
2	Tata AIA Life - Whole Life Stable Growth Fund	12.7492
3	Bajaj Allianz Life - Asset Allocation Pension Fund	12.6709
4	Kotak Mahindra Old Mutual Life - Kotak Balanced Fund	12.5599
5	LIC of India - Endowment Plus Growth	12.3624
6	HDFC Standard Life - Balanced Managed Investment Pension	12.242
7	SBI Life - Balanced Pension Fund	12.2084
8	Bajaj Allianz Life - Asset Allocation Fund	12.1802
9	Tata AIA Life - Life Balanced Fund	12.1747
10	ICICI Prudential Life - Multi Cap Balanced Fund	12.0903

3. **Conservative Allocation 10 Years**

Rank	Legal Name Of ULIP Fund	CAGR (%)
1	LIC of India - Market Plus Secure	11.383
2	ICICI Prudential Life - Balancer Fund IV	11.1774
3	Aditya Birla Sun Life - Individual Pension Plan Enrich Fund	11.1325
4	ICICI Prudential Life - Balancer Fund II	11.0225
5	ICICI Prudential Life - Health Balancer Fund	10.967
6	Tata AIA Life - Future Growth Pension Fund	10.9267
7	LIC of India - Money Plus I - Secure	10.8781
8	LIC of India - Endowment Plus Balanced	10.8537
9	ICICI Prudential Life - Pension Balancer Fund II	10.4594
10	HDFC Standard Life - Defensive Managed Investment Pension	10.4299

4. **Aggressive Allocation, 1 Year**

Rank	Legal Name Of ULIP Fund	CAGR (%)
1	SBI Life - Equity Elite Fund	32.2871
2	Ageas Federal Life - Aggressive Asset Allocator Fund	25.5474
3	Aditya Birla Sun Life - Individual Magnifier Fund	25.0676
4	HDFC S Life-Equity Plus Fund	24.9833
5	Tata AIA Life - Life Growth Fund	24.8744
6	LIC of India - Market Plus I - Growth	24.7114
7	Aviva Life - Life Unit Linked Growth Fund II	24.4516
8	Aviva Life - Life Unit Linked Growth Fund	24.346
9	SBI Life - Top 300 Pension Fund	24.3252
10	HDFC S Life-Diversified Equity Fund	23.9988

5. **Aggressive Allocation, 5 Years**

Rank	Legal Name Of ULIP Fund	CAGR (%)
1	SBI Life - Equity Elite Fund	19.4779
2	HDFC S Life-Diversified Equity Fund	18.5325
3	SBI Life - Top 300 Pension Fund	17.1469
4	Tata AIA Life - Whole Life Aggressive Growth Fund	16.9804
5	SBI Life - Top 300 Fund	16.8941
6	Tata AIA Life - Life Growth Fund	16.783
7	Tata AIA Life - Growth Maximiser Fund	16.5988
8	HDFC S Life-Equity Plus Fund	16.3713
9	Tata AIA Life - Life Aggressive Growth Fund	16.2999
10	SBI Life - Equity Optimiser Pension Fund	15.9651

6. **"Other Bond", 5 Years**

Rank	Legal Name Of ULIP Fund	CAGR (%)
1	Aviva Life - Pension Unitised With Profit Fund	13.2181
2	Aviva Life - Unitised With Profit Fund	12.9035
3	LIC of India - Money Plus I -Bond	8.6797
4	LIC of India - Jeevan Saathi Plus Bond	7.5337
5	Shriram Life - Protector	7.5054
6	LIC of India - Profit Plus Bond	7.2494
7	LIC of India - Endowment Plus Bond	7.0912
8	LIC of India - Child Fortune Plus Bond	7.0068
9	LIC of India - Fortune Plus Bond	6.9797
10	LIC of India - Money Plus Bond	6.9691

Clearly, ULIPs have given good returns. We are ignoring the value of life risk cover given by these policies. Moreover, these are in most cases, **Tax Free Returns** which have to be compared with Post Tax returns of MFs and not the Pre Tax ones. LTCG is applicable on MF returns at rates which depend on the nature of investment, whether it is debt or equity as already discussed above.

Why is the Sale of MFs Many Times More Than That of ULIPS?

This brings us to the key question articulated above; if ULIPs are as good as MFs, why is MF market expanding by Rs 1 lakh crore every year while the ULIP market is barely getting one-fifth of this amount in spite of the fact that there are over 20 lakh Life Insurance agents in India?

Following are the **possible** answers.

- As mentioned in the beginning of this paper, AMFI has launched a very aggressive campaign in the media (of all kinds) called "Mutual Funds Sahi Hai" promoting MFs in a very big way roping in MS Dhoni as the brand ambassador. This has contributed in increasing the awareness about this investment option amongst the masses. Individual MF houses run their own campaigns promoting their schemes on all media very consistently. There is no dearth of visibility and hence substantial "Mind Share" has been captured by the MF industry.
- MFs continuously launch new schemes or NFOs (New Fund Offers) to entice investors. These NFOs are aggressively pushed by the distributors since the commission is more here. Huge money gets collected under these untested (with no track record) schemes mainly due to the distributors' push. As many as 100 NFOs were launched by MFs in the first 8 months of the current FY 2021-22. Launching a new ULIP (or for that matter, even a non-linked plan) is a time consuming job for a LI company which has to comply with "File and Use" regulations of IRDAI.
- New NFOs are many a time pushed by distributors by encouraging the investor to "churn" her portfolio. She may be asked to exit from a scheme which is "of late" not performing well (may be due to exit of the star fund manager!) and invest the proceeds in the NFO which may have some "innovative" theme like "International", "ESG" etc. Most investors fall for these sales pitches. This is not easy for LI agent as the lock in period of 5 years is there. This churning can happen only after this.
- Even though there is a "Direct" option available (in which the investor can invest directly, bypassing the intermediary) which reduces the TER of the scheme, reflected in higher NAV, very few retail MF investors opt for it, Only corporate choose this option. Almost 80-90% of the investment of retail investors under MFs is through some

"Distributor" who earns a commission on the sale. This commission which is of course available to LI agents also, is a key factor in the spread of the MF culture.

- The LI agents get a commission only when the premium is paid by the Policy Holder. His commission is based only on the current installment of premium received by the LI Company. For example, if the premium is Rs 10,000/- and the year of the policy is 4th, the amount of commission that will be received by the agent will be Rs 450/- (4.5%) under LIC's SIIP. The fact that LIC has received Rs 40,000/- so far under the policy has no relevance to the rate or amount of commission. However, in case of MFs, there is what is called "Trail" commission. This is based on the total AUM (assets under management) of the agent. As years pass, the AUM grows and the amount of commission grows accordingly. Even under a lumpsum investment made by an investor in a MF, the distributor receives regular quarterly commission (in contrast, there is only one time commission of 2% on single premium ULIPs). The rate of this trail commission depends on the volume of AUM and can go up to 1%. This is a very big attraction for the MF intermediary which is not there in a ULIP.
- An LI agent receives commission only if the policy is in force, i.e. if the premium is actually paid by the PH. No commission is paid on the premiums paid by the PH in the previous years. On the other hand, there are little chances of an SIP "lapsing" resulting in the cessation of commission for the agent. Even if an investor discontinues his SIP midway, the amount already invested fetches trail commission to the MF agent. A big attraction for the intermediary. This has pushed life insurance agents to take up the "agency" of MFs who are leveraging their customer base to sell MFs to them.
- ULIPs involve medical examination of the PH in cases wherever the age of the prospect or Sum Assured is high. This is considered a hassle by the investor/PH and is not keen to comply. This becomes almost mandatory if the SP/Annualized Premium is moderately large (Rs 1-2 lakhs) and the PH wants Tax Free returns for which it is necessary that he chooses a Sum Assured (Risk Cover) of Rs 10-20 lakhs.
- MFs offer flexibility of payment to the investor in as much as he can pay only once, pay regularly, stop anytime or start anytime, top up anytime, etc. On the other hand, ULIPs entail a long term commitment of payment of premium, as and when they fall due.
- "Ease of investment" is another factor which has led investors to consider MFs as their favoured investment option. The SIP mode has become a runaway hit with annual SIP inflows crossing the Rs 1 lakh crore mark in the first 8 months of the FY 2021-22 itself.
- The App based investment and redemption of MFs is another factor in its favour. With just a few clicks/taps on the App of the fund house or registrars like CAMS, an SIP can be started/ paused/stopped, an STP can be initiated, units redeemed or capital gains statement for any period generated. This **"Ease of Doing Business"** is a great attraction for investors, which is totally paperless and instantaneous. In contrast, partial withdrawal from a ULIP or its full surrender requires a visit to the Branch and submission of physical policy/documents which sounds archaic to many new age investors.
- The investment under ULIP through e-NACH is still mired in myriad problems with very high failure rate. This obviously puts off even the agent who is positively inclined towards selling ULIPs.
- Since the financial literacy of Indians in general is low, they are rushing into equity MFs since **everybody else** is into it. Huge inflows were seen when the index was climbing with dizzying pace. It is well understood that no one can time the market. Entering the market when it has shot up in a very short period is not a good idea. But egged on by the "advisors", money is pouring in with the investors worried about the FOMO (fear of missing out)!

So, What Should Life Insurance Companies Do?

In the light of the above, the task before Life Insurance Companies are clearly cut out. The following actions have to be taken urgently if they want a reasonable slice of the huge MF/ ULIP pie.

- A media campaign, in coordination with IRDAI is needed to educate the general public about ULIPs as a worthy investment option. ULIPs have to be pitched as an alternative to MFs, that too a better one, which provides risk cover as well, with tax efficient returns.
- Create a small but dedicated team of agents in every Branch, knowledgeable and committed, who are able and willing to sell ULIPs. Thorough training needs to be given to this group and continuous handholding is called for.
- More products are needed to provide options to the PHs to choose from.
- Even though the RIY is reasonably low, ways to reduce it further need to be explored.
- The fund options need to be increased. Market cap based and Index linked fund options may be offered.
- "Partial Switching" option has to be introduced so that the Policy Holder can put part of her premium in one fund, say Growth, and the remaining in say, Bond. This kind of flexibility will prove a real winner with the PHs.
- The ultimate return for the PH will depend on the fund performance. Again, even if the present fund performance is good, there is always scope for bettering it in tune with changes in the market.
- There is a long way to go to give the new generation ULIP Policy Holder, a paperless and App based purchase/service/ redemption experience. User friendly mobile Apps with comprehensive abilities to satisfy all the needs of the PH are sorely needed which will match the MFs' "Ease of Doing Business".
- E-NACH has to work smoothly, with very low failure rate. This is critical if the volume of ULIP sales has to grow appreciably. This will enable ULIPs to compete with MF SIPs.

It is hoped that life insurance companies will take appropriate steps to claim a larger share of the burgeoning MF/ULIP market of India.

References

- Graphics showing MF returns have been taken from "ET Wealth", edition of 23.8.2021.
- TER of MF schemes has been taken from the website of AMFI.
- CAGR of ULIPs has been taken from "Morning Star.com".

An Independent Fraud Investigation Framework - Need of an Hour (An Insurance Perspective)

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Abstract

The field of law relating to Insurance has seen many legislations & regulations in the past few years, however, one distinctly identifiable & vulnerable area which has not received the spotlight that it deserves is that of prevailing & widespread Frauds. This paper is an attempt at exploring the necessity of the centrally managed mechanism for curbing this growing trend of Insurance frauds.

The proposed model is inspired by the Serious Fraud Investigation Office & its origination through Naresh Chandra Committee recommendations.

Insurance frauds & necessity of a law to curb them is a widely deliberated subject, though there has been no concrete framework in place for the same. The objective here is to float an idea / concept of "Proposed Agency" for fraud prevention for the consideration of the judiciary & the industry at large.

Keywords

Insurance Frauds, Independent Legal Framework, Centrally Managed Fraud Prevention & Investigation Mechanism, Insurance Fraud Investigation Agency (IFIA), Insurance Fraud Investigation Task Force.

Introduction

In the Socratic Dialogue "Republic", Plato notably wrote "*Our Need will be the real creator*". Need, in itself carries a potential to encourage a creative self to explore & pursue ways to meet that need. It were our

needs which led us to various scientific, technological, sociopolitical, economic & cultural inventions which went on to cater the human needs in general & the needs of entire ecosystem in particular. When one looks at the philosophy of the proverbial version of the statement of Plato in the light of the evolution of the legal ecosystem, it becomes vibrantly clear that the legal ecosystem & its evolution over the past centuries is motivated by the *Need* or the *Necessity* of a particular legal framework in the given set of circumstances.

The most significant example of need based or necessity driven law or enactment can be found in the Indian Constitution itself. Post it's coming into force in 1950, the Indian Constitution has been amended as many as 105 times in the past 71 years. Most of these amendments have been necessitated by the need of the time, society, economy etc. as the case may be. Many preventive laws & regulations were passed in the coming years & even before independence. Post-independence evolution of the Indian legal ecosystem is something which we bear witness to as on date.

Evolution in the Field of Insurance Laws

The Insurance Act, 1938 can be termed as the mother of the Insurance business in India till date. However, over the period of time many enactments, Rules & Regulations have been introduced over the period of time to provide for different needs of the Industry. The Insurance business in India was taken over by the Central government in the year 1956 & the passing of the Life Insurance Corporation Act, 1956 marked the beginning of a new era in the Insurance industry. The General Insurance Business was taken under the umbrella of nationalization in the year 1973 with the passing of the General Insurance Business (Nationalization) Act, 1972. The year 1999 witnessed the most remarkable move for the Insurance industry when the Government established an independent regulatory institution for the Insurance Business, the Insurance Regulatory & Development Authority & also the passing of the IRDA Act, 1999. This is the time when the Insurance sector was opened for the private sector companies. Since then the Insurance sector is growing many folds over the past decade.

Since 1999, the IRDA Act, 1999 is operating as a principle enactment for the conduct & regulation of Insurance business in India. More than 50 Regulations have since been passed under the IRDA Act till date. These regulations were aimed at introducing set of rules & procedures & laying down guidelines on various aspects of the Insurance business such as Appointment of Brokers, Actuaries, and third party administrators. Regulations dealing with payment of commission, Registration of new insurance companies etc. have also been framed. Apart from the Regulations, several Rules have also been framed under the Act. These rules specifically aim at holding of inquiries, conduct of business of Insurance in Special Economic zones, regulation of foreign investment etc. To facilitate the risk assessment & evaluation process of the Insurance industry, the legislators passed the Actuaries Act, 2006.

Suffice it to point out here that, specially focused Regulation on the policy holders have also been set in place by the IRDAI since 2002. The Protection of Policyholder's Interest Regulation, 2002 was passed with a view to attend to the protection of interest of the policyholders. The Regulation was further amended in the year 2017. It is under this Regulation the Insurance companies have been mandated to formulate an internal grievance redressal mechanism within the company directly under the supervision of the regulator.

The Redressal of Public Grievance Rules, 1988 was another remarkable move in the Insurance legislation. These Rules were formulated under the Insurance Act, 1938 & it is these Rules that laid down a foundation for the establishment of the institution of the Insurance Ombudsman. To provide the Ombudsman institution an autonomy of function & to strengthen the institution, the new Insurance Ombudsman Rules, 2017 were floated. All these legislative changes & reforms in the Insurance domain, if examined critically, would point that the focus of the legislators has been majorly on the protection of interest of the policy holders & regulation of the Insurance Business by way of Rules & Regulations.

The above discussion on the evolution of the legislative approach in various business domains demonstrates that the Indian legislators have enacted numerous laws & framed various Rules & Regulations to adapt to the changing needs of the respective fields. Legislations preventing and banning various evil traditions, illegal &

immoral activities, trades & occupations, practices & professions have also been brought in over the past many years. However, the moot point is have we been truly free from all the practices that need to be specifically prevented or banned? Have we been able to identify & acknowledge the areas, activities & practices that are still waiting for a statutory recognition of being 'Necessarily Preventive'? Unfortunately, the answer to these questions is *No*. Exploring numerous areas & practices that call for preventive laws is a herculean task which cannot be accomplished by small hands & would require larger legislative intervention. However, one distinctly identifiable & vulnerable area is the prevailing & widespread frauds in the disruptively growing industry of Insurance which warrants an immediate attention & preventive mechanism. This paper is an attempt to throw light on the industry wide distending phenomenon of insurance frauds in India. An attempt is also aimed at exploring the necessity & availability of the centrally managed mechanism for curbing this growing trend of fraudulent claims. But before we advert to the preventive mechanism, it is pertinent to take a clear look at the Insurance Industry & its functioning at large.

Insurance – An Industry Overview

Broadly categorized into two streams; Life & Non-life (General); the Insurance industry is one of the fastest growing & largest potential industry in India. At present there are 68 Insurance companies operating in India which comprises of 24 Life Insurers, 27 Non-life Insurers & rest of the companies are in the business of stand-alone health insurance & re-insurance. The overall market size of the Indian Insurance Industry is expected to cross the US$ 300 billion benchmark in the financial year 2021-22.[1] The Insurance penetration in India stood at 4.2% in FY 2021 as against 3.76% in FY 2020. A glance at the overall insurance penetration is self-explanatory of the tremendous potential of growth that this industry carries. Recent changes in the FDI whereby the Indian Government has increased the FDI in the insurance sector from 49% to 74% are sure to act as an important factor in attracting the foreign investors to set their foot in the Indian Insurance market. The growing interest & the facilitation of the business at the Government level is also aiding to growth of this industry.

Many Public Insurance schemes have been floated during the last decade by the Government of India & various State Governments. The PMJJY, PMSBY, PMFBY, VPBY & RWBCIS are some of the notable insurance schemes floated by the Indian Government. In the health Insurance area, the PM-JAY is one of the revolutionary insurance scheme floated by the Government in 2018 which aims at providing health Insurance umbrella to 10.74 Crore poor & vulnerable families (approx. 50 crore beneficiaries). Apart from PM-JAY, there are around 15 more health insurance schemes operated by the Central & State Governments in India. All these schemes are operated by the Governments through the existing Insurance companies. The endeavor is to bring as many citizens as possible under the umbrella of Insurance, not only health & life but also various other segments such as Crop.

All these Government initiatives combined together & looking at the wide exposure that is still available in the private sector of the insurance business, there can be no doubt that the Insurance industry is going to be one of the major contributor to the Indian economy. In September 2021, the Union cabinet approved an investment of US$ 804.71 Million (approx. Rs. 6000 Crore) into entities offering Export Insurance to facilitate the additional export over the next 5 year. In February 2021, the Ministry of Finance has announced infusion of US$ 413.13 Million (approx. Rs. 3000 Crore) into the public sector insurance companies to improve the overall financial health of these companies. If we talk about the non-life Insurance industry in India, it has registered growth at an exponential rate of 16.73% over the past decade. The statistics can also corroborate the contribution of the Insurance industry to the GDP of the country. Below table depicts the contribution of the Insurance industry to the GDP & the Gross Direct Premium collected by the Insurers over the past five financial years[2] :

1 India Brand Equity Foundation

2 Statista.com

GDP Contribution of Insurance Industry (2015-16 to 2019-20)

Financial Year	GDP Contribution	Gross Direct Premium (in Crores)
2015-16	3.49	96,379
2016-17	3.69	1,28,128
2017-18	3.70	1,50,662
2018-19	3.76	1,69,448
2019-20	4.20	1,88,916

The IRDAI Annual Report for the FY 2019-20[3] states that the Gross premium collected by the non-life Insurance companies in India in the FY 2019-20 was at Rs. 1.89 Lakh Crore compared to Rs. 1.69 Lakh Crore in the previous FY. Whereas the Insurers paid Rs. 1.01 Lakh Crore & Rs. 1.08 Lakh Crore worth net claims during these financial years respectively. Another important fact that needs a mention here is that on both the sides, Premium & the Claims, Motor Insurance business contributes the highest followed by the Health Insurance business. The numbers speak quite loudly of the ratio of premium & the claims. Needless to mention that a deeper look at the statistics would give a larger & clearer picture of this incongruity.

Unlike Life Insurance stream of business which offers Insurance for life alone, non-life Insurance business offers hundreds of insurance products with motor, health, travel, marine etc. being the leading streams. Motor third party Insurance is mandatory by law in India (though the motor insurance penetration in India still very low). Also, increasing awareness of health insurance coupled with the Government initiatives in the field of health insurance has led to increasing penetration in the health insurance segment. Past few years have also witnessed a major governmental shift in the field of Crop insurance. The Insurers receive crores of claims every financial year emanating from these different streams of businesses. By & of, it can be empirically said that the claim exposure of the non-life insurers is also varied, complex & larger when compared to the life insurers. It is also equally important to note that more the customer base, the more will be the frequency of claims & more the frequency, more is the risk exposure of the insurer on both financial & operational front.

Insurance Industry – An Exposure to Fraudulent Claims

When an Insurer writes a policy of insurance, it virtually owns the risk of the Insured as its own. The business of Insurance runs on the first & foremost principle of “Uberima Fidae” also known as “Good Faith”. It solicits that neither party hides any information that is material to the policy of insurance. It also attaches importance to the fact that no party to the contract of Insurance acts in mala- fide manner so as to affect the interest of the other. The most germane question, though, is that, whether this principle of ‘Good Faith’ holds good in all the cases? Whether a principle alone can be considered to be a guiding factor for the governance of the business? Unfortunately, the answer is in negative. The collective experience of the Insurance industry suggests that the claims experience is not alien to manipulative, fraudulent & illegal practices. In fact, at the cost of being audacious, it can be said that the insurance industry today is plagued by the prevalent frauds. There have been numerous instances of fraud & illegal claims, some ex-facie & some discovered later, unearthed either through the investigations or through due diligence. But then again, do the Insurance companies have the authority, competence & machinery to get to the bottom of these fraudulent practices? Does the Claim Settlement timeframe permit the Insurer to dig deep into the claims when something appears to be off? It may sound impudent, but what the Insurers discover & nullify is just a tip of the iceberg.

Many instances of individual & organized frauds which could be unearthed have brought to the notice of the Insurers, Regulator & the Courts a few alarming scenarios in which the fraud on insurers is articulated. These ways include, but not limit to:

- Producing forged documents / Forging the documents such as Policies

[3] IRDAI Annual Report, FY 2019-20

- Intentional Non-disclosure of critical information
- Buying of policies in the name of a dead person or a person with a terminal illness
- Stating false reasons for claims
- Misappropriating assets
- Inflating expenses
- Manipulating pre-policy health check-up records
- Staged accidents and fake disability claims
- Misappropriation of Hospital expenses
- Misappropriation of police papers & witness manipulation

These are just a handful examples of the manipulative & fraudulent practices that have assumed a rampant nature in the recent past. More importantly, the organized frauds are now enabled by the growing use of technology. According to a report the Indian Insurance Industry has lost approximately US$6.40 Billion to frauds.[4] The report also suggest that over 10% of the claims in the non-life sector are fraudulent. These statistics are alarming & emphasize the need & necessity for an effective Fraud Management & Prevention system.

Existing Fraud Management & Prevention Avenues & Mechanism

The existing fraud management framework can be broadly divided in two parts viz.; Regulatory & Legal. IRDAI, the regulator of Insurance business in India, has put in place a mandatory Fraud Management Framework for all the Insurers. This framework focuses on setting up of the internal machinery & procedure for fraud identification & protection, prevention & mitigation. The Insurers are mandated to have in place a holistic risk management policy with set of procedure. Accordingly, all the Insurers have their own set of Fraud monitoring & prevention function which operates as per IRDAI guidelines which are revised from time to time by the IRDAI. The Regulator also collects reports from the Insurers on the identified frauds & the actions taken by the Insurer on the same.

In the legal parlance, "one who seeks equity must come with clean hands". The principle of law is settled that one who comes to law with a false claim must be denied any justice. The legal remedies for fraud can be found '*in not so certain terms*' when looked at the Insurance related enactments. Majority of claims which travel through legal framework of the country are governed by two major enactments first the Motor Vehicles Act., 1988 & the second being the Consumer Protection Act, 2019. Both these enactments contain provisions relating to fraudulent & vexatious claims. Section 172 of the Motor Vehicles Act deals with award of compensatory costs in case it is established that the party has raised a frivolous or vexatious claim. Whereas Section 26 of the Old Consumer Protection Act, 1986 also contained a provision similar to Section 172 of the motor vehicles act & provided for dismissal of the complaint if found to be frivolous or vexatious & also for awarding of costs to the affected party (the amended Act of 2019 has surprisingly given away with this provision as well). This has exposed the Consumer litigation area to the frivolous & vexatious litigations without there being any sanction or preventive provision. Another important piece of legal remedy is contained in Section 340 of the Cr.P.C. The section aims at ascertaining whether any offence affecting administration of justice has been committed in relation to any proceedings before or any document produced/ given in evidence in Court, during the time when the document or evidence was in *Custodia Legis* and whether it is also expedient in the interest of justice to take such action. Sections 340 of Cr.P.C. is in fact the only material & effective provision that can serve as a remedy to the Insurers when it comes to seeking redressal for Frauds. However, it is often seen that the Courts do not invoke any of the above provisions even after reasonable grounds have been brought on record during the proceedings. By & large, it can be said with utmost caution & respect to the authority of the judiciary that the existing legal remedies available to the insurers have proven to be virtually redundant.

Recent years have seen a shift in the field of judicial recognition of the ever growing disquieting & disruptive phenomenon of fraud. The Hon'ble Apex Court has started taking serious cognizance of rampant fraud practices prevailing & unearthed in the motor third party insurance domain. Most remarkable step being

4 Article by Deepak Bhawani in Financial Express, Apr 13th, 2020

the formation of Special Investigation Team in the State of Uttar Pradesh in the year 2015. Following the footstep, States like Rajasthan & Gujrat have also set in place the Special Investigation units to investigate into the Insurance frauds especially in the motor third party domain. Notably, the Uttar Pradesh SIT has been able to identify as many as 27 lawyers from the UP Bar Council who have been found to be actively involved in fabricating motor accident claims thereby defrauding the Insurers of crores of rupees over the years. Many lawyers, policemen & insurance agents have also been identified in this process having direct links to insurance frauds. Suffice it to mention here that, these results have been achieved when only 246 out of 1376 complaints have been investigated so far & only 83 criminal complaints have been registered against the offenders. The numbers are distressing for a reason that this is the outcome of investigation of a handful complaints that too in only one state. It will not be out of the place to state that this outcome is not even a tip of the iceberg & it has taken almost 6 years to unearth these though laudable but miniscule results. In most of the Indian states there is no such framework of Special Investigation Units till date & no visible effort can be seen on the part of the State Governments to further the same. The outcome of the Uttar Pradesh investigations is pointing towards the need of the robust & stringent laws & centrally managed machinery that can provide for a swift & independent investigation & redressal of these frauds. The situation demands strict actions & punishments for those found to be guilty of these frauds & also to set deterrent example for those who are yet to be brought to the notice of the law.

Proposed Legislative Framework for Fraud Investigation, Prevention & Adjudication

As deliberated in the above segments, though there is a regulatory framework in place, it is the legal framework which plays the pivotal role when it comes to something as serious & delinquent as Fraud. Many west world & European countries already have established Fraud control & prevention agencies which work solely in the field of Insurance frauds. Below is an account of some of these agencies:

United States of America: National Insurance Crime Bureau, 1992

The organized Insurance Frauds received government recognition way back in the year 1980 & in it was legally recognised with the establishment of the National Insurance Crime Bureau in the year 1992. Since then various State operated machineries have been installed in the United States.

Canada: Canadian National Insurance Crime Services

Canada also has in place a Canadian National Insurance Crime Services (CANATICS).

France: *ACPR - Autorité de Contrôle Prudentiel et de Résolution*

In France, the French supervisory authority (ACPR - Autorité de Contrôle Prudentiel et de Résolution) ensures a permanent supervision of all the undertakings of the insurance sector by controlling the respect of the current laws and regulations.

United Kingdoms: *Insurance Fraud Bureau, 2006 ; Insurance Fraud Enforcement Department, 2012*

A specialized Police unit dedicated to investigating & prosecuting the insurance fraudsters & a non-profit organisation specifically focused on detection & prevention of organized Insurance frauds recognized by the Government is in place for a considerable time. The Fraud Act, 2006 defines Insurance Fraud a 'Crime'

These are just a few examples of the dedicated Insurance Fraud prevention agencies operating in major countries across globe. Whereas in India, apart from the establishment of the Special Investigation Units in some states there is no other independent, significant & uniform law, regulation or agency which would be able to cater to this dire necessity of a specialized law or agency which would operate across the country.

Here, an attempt is being made to provide a skeleton for the proposed independent & centrally managed statutory framework which would aim at providing for:

1. A Specialized law / regulation / Agency to investigate, prevent, mitigate, adjudicate & punish the offenders of fraud
2. An independent centrally managed mechanism / agency which would operate as a bridge between the Insurer & the Government for reporting of suspected & ex-facie fraudulent activities

3. An independent & centrally managed database of Insurance frauds

4. An independent & centrally managed Investigation & Adjudicative mechanism for fraud Offenders operated through State machineries

Establishment of the Proposed 'Insurance Fraud Investigation Agency' (IFIA)

In the year 2015, the Indian Government established a multi-disciplinary organization directly under the control of the Ministry of Corporate Affairs named as "Serious Fraud Investigation Office" (SFIO) on the line of Serious Fraud Office, UK. The SFIO is responsible for investigation, prevention & prosecution of fraudulent activities in the field of corporate affairs. Essentially, the SFIO deals not only with detection of Company Frauds but also to direct & supervise the prosecution of the fraudsters under various legislations. SFIO is a centrally governed organization involving experts in the field of accountancy, forensic auditing, banking, law, information technology, investigation, company law, capital market and taxation etc. for detecting and prosecuting or recommending for prosecution white collar crimes/ frauds.

On the similar lines it is proposed to establish an independent fraud investigation agency with a sole focus on the frauds in the Insurance Domain. The proposed agency may be called as the "**INSURANCE FRAUD INVESTIGATION AGENCY**" **(IFIA).** The recommendations for the establishment of IFIA are as under[5] :

Recommendations

I. A Centrally managed & operated Insurance Fraud Investigation Office should be set up in the Ministry of Finance with specialists inducted on the basis of transfer/deputation and on special term contracts ;

II. The agency shall function as a multi-disciplinary team that not only uncovers the fraud, but also works towards investigating and supervising prosecutions under various legislations through appropriate State agencies

III. The Agency should formulate an independent '***Insurance Fraud Investigation Task Force***' constituted for each State under a designated team leader :

   a. The 'Task Force' to be constituted in each State shall be constituted on the same lines as that of a Special Investigation Team constituted by the Hon'ble Apex Court for the State of Uttar Pradesh

   b. The 'Task Force' shall be under direct control & supervision of the Asst. / joint Director (Investigations) of the IFIA who shall be an officer of the Police not below the rank of Joint Director of Police or Asst. Director of Police

   c. The powers & procedure applicable to the 'Task Force' shall be separately laid down

IV. In the interest of adequate control and efficiency, a Committee each, headed by the Cabinet Secretary should directly oversee the appointments to, and functioning of this office, and coordinate the work of concerned departments and agencies;

V. A legislative framework, along the lines of the SFIO , should be set up to enable the IFIA to investigate all aspects of the Insurance fraud, and direct the prosecution in appropriate Courts

VI. A Committee of Insurers (CoI) shall be set up under the supervision of the IRDAI. This committee shall be responsible for preliminary identification & scrutiny of the fraud incidence which in turn shall be forwarded to the IFIA along with its recommendation

The Responsibilities, Procedures & Functions of the IFIA shall include, but not limited to the following:

a. The IFIA shall function as a multi-disciplinary organisation consisting of experts in the field of accountancy, forensic auditing, law, information technology, investigation, IRDAI licenced Insurance surveyors, Investigators & loss assessors, Health & healthcare professionals, motor & automotive professionals, data analytics professionals etc. for detecting and prosecuting or

[5] Inspiration for the outline of the Recommendations, constitution, responsibilities & functions has been taken from the SFIO recommendations of the Naresh Chandra Committee,2002.

recommending for prosecution of insurance crimes/frauds offenders

b. The IFIA 'Task Force' will normally take up investigation for only such cases, which are characterized by –

   1. Individual or Organized fraudulent activity at an industry level or at an organization level
   2. Substantial involvement of public interest to be judged by size, either monetary or otherwise
   3. The possibility of investigation leading to or contributing towards a clear improvement in systems, laws or procedures

c. The IFIA shall investigate serious cases of fraud received from a committee of Insurers (CoI) formulated under the authority of IRDAI consisting of one member each from each Insurer (special rules to be formulated for establishment of the said Committee). IFIA may also take up cases on its own under specific circumstances to be provided for

d. The IFIA would make investigations under the provisions of the Code of Criminal Procedure & Indian Penal Code and would also forward the investigation reports on violations of the provisions of other acts to the concerned State agencies for prosecution/appropriate action;

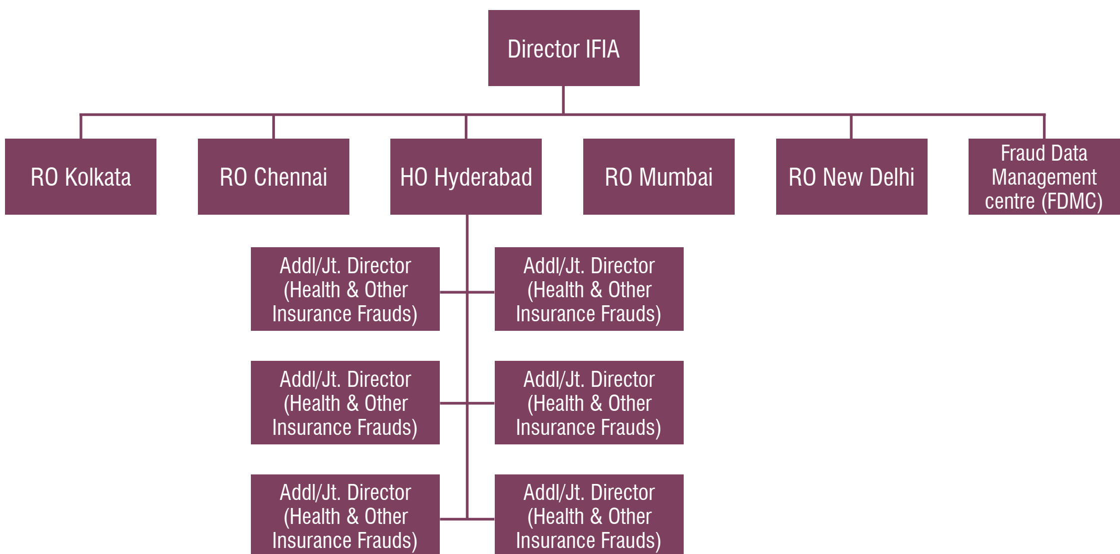
e. Whether or not an investigation should be taken up by the IFIA would be decided by the Director, IFIA who will be expected to record the reasons in writing. These decisions will be further subject to review by a coordination committee of the IFIA

f. IFIA shall be headed by a Director as Head of Department in the rank of Joint Secretary to the Government of India. The Director is assisted by Additional Directors, Joint Directors, Deputy Directors, Senior Assistant Directors, Assistant Directors Prosecutors and other secretarial staff. The Headquarter of IFIA may be kept at Hyderabad (same as IRDAI), with four Regional Offices at Mumbai, New Delhi, Chennai & Kolkata.

Procedure Applicable To IFAI 'TASK FORCE' For Investigations:

i. The head of the IFIA 'Task Force' shall be deemed to be the 'Investigation Office' for all purposes under the Cr.P.C.

Organization structure of the IFIA



There shall be a designated team of Deputy Directors, Assistant Directors, Sr. Prosecutors, Prosecutors, Office Superintendent, and Personal Assistants etc. as may be required.

ii. All offences undertaken to be investigated by the 'Task Force' of IFIA shall be considered as 'Cognizable Offense" within the meaning of Section 156 of the Cr.P.C.

iii. All investigations carried out by the IFIA 'Task Force' shall be assigned same meaning as that of definition of the term 'Investigation' given under section 2(h) of the Cr.P.C.

iv. The IFIA 'Task Force' shall have all the powers of an Investigating Officer within the meaning of the Cr. P.C. including but not limited to

   1. Proceeding to the spot.
   2. Ascertainment of facts and circumstances of the case
   3. Discovery and arrest of the suspect
   4. Collection of evidence
   5. Examination of persons concerned and reducing their statement to writing.
   6. Search and seizure of places and things respectively considered necessary. Formation of opinion as to whether there is a case for trial, and taking necessary steps accordingly.

v. The Investigation carried out by the 'Task Force' of the IFIA shall be as per the procedure laid down under Section 157 of the Cr.P.C.

vi. If the IFIA is satisfied that there is sufficient material available through investigation to arrive at an ex-facie conclusion of Fraud, it may submits its report of investigation to the Officer In-charge of the concerned Police Station within whose jurisdiction the Offence of Fraud has taken place. This shall be only for the purpose of information & assistance. The prosecution of the offenders shall be solely within the power & authority of the IFIA. The Investigation Report prepared by the IFIA shall then be forwarded to the concerned magistrate through the Office In-charge of the concerned Police Station within whose jurisdiction the Offence of Fraud has taken place as per Section 158 of the Cr.PC.

vii. The 'Task Force' of IFIA all be construed to assume all the powers of an investigations officers under the Cr.PC. for investigation of cognizable offences

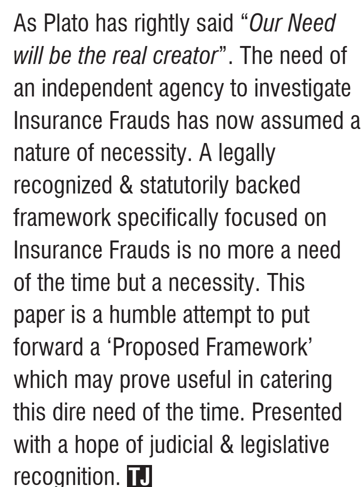
viii. The 'Task Force' of IFIA shall follow the same procedure for investigation as applicable for investigation of cognizable offences to Investigating Officer under the Cr.P.C.

ix. All the provisions of Chapter XII of the Cr.P.C. relating to information of an Offence to the Police & their powers to investigate shall be *mutatis mutandis* applicable to the IFIA 'Task Force'

Conclusion

The graph & magnitude of the Insurance frauds is perceiving a disruptive nature in the past few years. The money held by the insurers in the form of premium is in its essence public money & the risk exposure of the policy holders is assumed & catered by the insurance companies out of this public money only. The incidences of individual & organized insurance frauds results in syphoning of the public money which directly impacts the ability of the Insurance companies to cater the genuine claims of insurance.

The Hon'ble Apex Court & the various High Courts of the Country are making all the possible endeavors at mitigating & curbing the rampant fraud practices in the insurance domain. However, with due respect, the higher Courts of the Country are already overburdened & the existing judicial bandwidth does not allow the Courts to act under its Supervisory Jurisdiction for an indefinite time. The 'Proposed Framework' is an attempt to provide for an independent, all-inclusive & effective mechanism of Fraud prevention & prosecution which shall have a statutory recognition & backing. This framework, if implemented, will surely serve the purpose of Insurance fraud identification, prevention, mitigation as well as prosecution all under one roof.



As Plato has rightly said "*Our Need will be the real creator*". The need of an independent agency to investigate Insurance Frauds has now assumed a nature of necessity. A legally recognized & statutorily backed framework specifically focused on Insurance Frauds is no more a need of the time but a necessity. This paper is a humble attempt to put forward a 'Proposed Framework' which may prove useful in catering this dire need of the time. Presented with a hope of judicial & legislative recognition. TJ

Insurance Marketing Firm (IMF) – An Opportunity for Entrepreneurs

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Abstract

Insurance Marketing Firms (IMFs) are regulated by "IRDAI (Registration of IMF) Regulations, 2015". Through this intermediary channel the IRDAI provides a new scope to entrepreneurs in insurance and finance sector. This article will provide readers with a better understanding of the IMF and its functions with grass root experiences.

The main objectives of this article are as follows:

- To provide an overview of IMFs
- To introduce the IMF channel as a new opportunity for entrepreneurs in the insurance and finance sector.
- To discuss the challenges of IMFs and to provide recommendations for appropriate authority to address these challenges.

Methodology

The methodology of this report involved both primary as well as secondary research as stated below:

Primary research:

- Interactions with key functionaries including Principal Officers and Insurance Persons of the Insurance Marketing Firms, senior officials of Insurance companies and other financial institutes.
- Field observations of Insurance Marketing Firms.

Secondary Research:

- Studied Insurance Marketing Firm Regulations, 2015 with new amendments and other related laws.
- Visited websites of IRDAI and other related stakeholders
- Studied Gram Panchayat Development Plan, published by Ministry of Panchayati Raj

Keywords

AIC: Agricultural Insurance Company of India, CMIE: Centre for Monitoring Indian Economy

ECGC: Export Credit Guarantee Corporation Ltd., FDI: Foreign Direct Investment

GPDP: Gram Panchayat Development Plan, IMF: Insurance Marketing Firm

IRDAI: Insurance Regulatory Development Authority of India, LIC: Life Insurance Corporation, NITI Aayog: National Institution for Transforming India Aayog

PFRDA: Pension Fund Regulation Development Authority, RBI: Reserve Bank of India

SDG: Sustainable Development Goal, SEBI : Security Exchange Board of India

Insurance Marketing Firm (IMF) is a new intermediary channel, introduced by the Insurance Regulatory Development Authority of India (IRDAI) under IRDAI (Registration of Insurance Marketing Firm) Regulations, 2015. This new channel was introduced by IRDAI following the recommendation of Govardhan committee report. This committee was constituted under the chairmanship of Shri M. N. Govardhan. He was the former chairperson of Life Insurance Corporation of India (LIC) and has a vast experience in insurance sector. This step was taken by IRDAI to improve insurance penetration in rural, semi-urban and aspirational districts of India. That is why IRDAI gave a special exemption as it reduced the net worth capital criteria from ten lakhs to five lakhs for the IMF who wants to work in aspirational districts.

IMF can be a good opportunity for the individuals who have entrepreneurial skills and want to work in a team manner through the formation of firms/ companies/co-operatives in insurance and other finance sectors. Through this, individuals not only serve their society through the available services but also generate various employment opportunities as Principal Officer, Insurance Sales Person, Financial Services Executive, etc. The IRDAI allows to IMFs to work for two insurance companies in Life, General and Health. This helps IMFs to give a variety of insurance products to their clients with comparison to available insurance products. Through this channel, the IMF Regulation allows not only working in the insurance sector but also opened the door of opportunities to work for other financial products including mutual funds, pension products, financial products of Banks/ NBFCs regulated by concerned authorities as well as non-insurance products offered by the Department of Posts. With the amendment in 2019, the IMF Regulation also provides a good opportunity for MBA degree holders to work as Principal Officers.

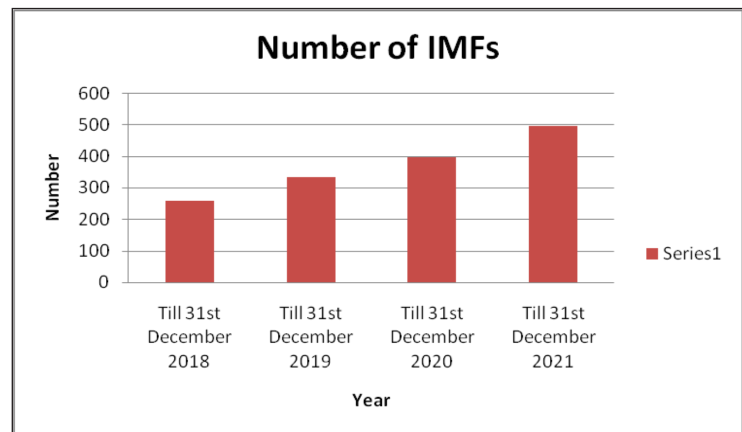

Figure 1.1

As per IRDAI Data (available on the website), there are 496 IMFs have been registered till 31st December 2021. Out of which around 48% IMFs are registered with IRDAI during the last three years (1st January 2019 to 31st December 2021), this indicates that the number of IMFs is increasing as people become aware about it (refer to figure 1.1).

During this ongoing pandemic of COVID19, many people are losing their jobs and facing difficulties to get new suitable jobs in spite of having a good

qualification and experiences. As per CMIE (Centre for Monitoring Indian Economy) report there is 6.57 % unemployment rate in India (8.16% in urban area and 5.84% in rural area) in January 2022. In May 2021 it was on peak i.e. 11.84% (14.72% in urban and 10.55% in rural area). In this condition, the IMF sector can provide a new dawn in insurance and finance sector. With insurance coverage of less than 4% there is a huge opportunity for IMFs in the insurance sector in India. Currently there are 24 insurance companies in Life Insurance and 34 companies are in General Insurance sectors. The Indian parliament recently passed Insurance Amendment Bill, 2021 and increased the FDI from 49 % to 74%. This will open good opportunities for foreign insurance players in India. The **Goal no. 8 of SDGs (Sustainable Development Goals)** directly support of insurance sector with its target no. 8.1 i.e. universal access to banking, **insurance** and financial services. The United Nations has defined this target as **"Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all"**. In addition, the insurance sector directly or indirectly contributes to 13 SDG out of the total 17 SDGs. This will provide an opportunity for the IMFs to act as contributor to achieve global goals.

Scope for IMFs: The IMF's can serve their clients with Pre, during and Post Policy services of an Insurance Policy. The *pre services* include counselling, making a clear understanding of various insurance products of available companies, providing the right to choose to their clients, etc. as well as *during* the policy term includes facilitation for deposit regular premiums, guidance for other services related to nomination/address change and loan facility. The *post-policy* services are equally important where the majority of clients especially in rural areas face a lot of difficulties. They even struggle for a simple mobile number of senior executives belonging to their insurance provider company to raise their issues. They don't know various online/offline platforms provided by IRDAI and the Government of India to raise their grievances. Here the IMFs can play a vital role in providing proper necessary guidance and assistance to their clients. Through a customer-centric approach, IMFs can serve the community and also attract potential clients who want to buy insurance policies but do not buy the same due to the fear of bottlenecks during the policy claim time.

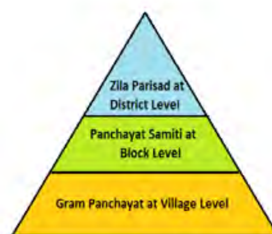

Figure 1.2

Scope in rural India: Currently there are around 2.54 lakhs Gram Panchayats in India where more than 70% of population of India are living. After 73rd constitutional amendment these Gram Panchayats got a constitutional status and became a unit of Local Self Government. This constitutional amendment established three tier Panchayati Raj system to engage the rural people in a decentralized Government (refer to figure 1.2). Through this amendment 29 subjects were provided to the Panchayats under 11th Schedule the Constitution of India. In these subjects, subject no. 16 (related to alleviation program), subject no. 24 (related to family welfare) and subject no. 26 (related to social welfare) directly supports insurance and financial products for the benefit of rural people. Subject no. 1 (related to agricultural) and subject no. 4 (related to animal husbandry), offer vast field for the concerned insurance products to cover the risk of rural farmers related to their agricultural and animal husbandry. For the development of Panchayats, the Ministry of Panchayati Raj and Ministry of Rural development, Government of India both are promoting and facilitating GPDP (Gram Panchayat Developing Plan) for each Gram panchayat. In the guidelines of GPDP the Government emphasized for insurance related provisions including *Pradhan Mantri Fasal Bima Yojana* (PMFBY)/ Restructured Weather Based Crop Insurance Scheme (RWBCIS) for rural areas. Through active participation in these programs, the IMF can play a major role in coordination with Gram Panchayats to access the insurance products for needy rural people in their area of operation. This will not only help to increase their business but also provide a satisfaction to work for needy people through participation

in a people centric national program. The Ministry of Panchayati Raj initiated this program from 2nd October 2018 known as "Sabki Yojana Sabka Vikas".

Products assigned for Insurance Marketing Firms

Through the IMF regulations the IRDAI provide the opportunities to work with the following products:

Insurance related:

- Soliciting and procuring Insurance Products of two Life insurance companies, two General insurance companies and two Health Insurance companies
- Back office activities/outsourcing activities for Insurance Companies
- Becoming approved person of Insurance Repositories;
- Undertaking survey and loss assessment work by employing on their rolls licensed surveyor & loss assessors;
- Any other insurance related activity permitted by the Authority from time to time.
- All kinds of products sold on individual and / or retail basis, including crop insurance for non-loanee farmers and combi products.

With IMF regulations amendment, 2019 the IRDAI also allowed IMF to engage with Agriculture Insurance Company of India Ltd. (AIC) and Export Credit Guarantee Corporation Ltd. (ECGC) in addition to two General Insurance Companies.

Marketing of other financial products through the Financial Service Executive (FSE) engaged by the IMF

- Mutual funds of mutual fund companies regulated by SEBI (Security Exchange Board of India);
- Pension products regulated by PFRDA (Pension Fund Regulatory Development Authority of India);
- Other financial products distributed by SEBI licensed Investment Advisors
- Banking/ financial products of banks/ NBFC regulated by RBI (Reserve Bank of India);
- Non-insurance products offered by Department of Posts, Government of India;
- Any other financial product or activity permitted by the Authority from time to time.

Key functionaries of the Insurance Marketing Firm

There are two major key functionaries were prescribed by IRDAI i.e. Principal Officer (PO) and Insurance Sales Person (ISP) for working with insurance products. The eligibility criteria for Principal Officer and Insurance Sales Person are as follows:

1. **Principal Officer**:

- Associate/Fellow of the Insurance Institute of India, Mumbai or Institute of Actuaries of India or Institute of Chartered Accountants of India, New Delhi or Institute of Cost Accountants of India, Kolkata or
- Executive/Professional of the Institute of Company Secretaries of India, New Delhi
- Associate/Fellow of the Charted Insurance Institute, Landon or
- Post graduate qualification of the Insurance and Risk management, Hyderabad, or
- Graduate with Insurance experience of two years
- Graduate with five years of experience in financial services
- Through IMF regulations amendment, 2019 IRDAI also opened the door for fresher, who has Master's in Business Administration (MBA) or its equivalent from any institution / university recognized by UGC / AICTE / any State Government or the Govt. of India.
- Any other qualification specified by IRDAI

The Principal Officer shall also undergo with prescribed Insurance Marketing Firm Training from an institution recognized by IRDAI and should pass the prescribed examination.

2. Insurance Sales Person:

- Minimum 12th pass or equivalent examination from recognized Board or Institution.
- Should have undergone the Insurance Marketing Firm Training prescribed by the Authority and pass the concerned exam.
- ISP should be domiciled in the area of Registration of IMF

Area of operation: The IMF can get registration with IRDAI for maximum three districts. If an IMF wants to work in more than one district then at least one district shall be an 'Aspirational District' as per the list of NITI Aayog (National Institution for Transforming India).

In spite of this provision, the IMF is free to solicit or procure the insurance business from all over India as per IRDAI rules.

Comparison between individual agent and IMF

Sr. No.	Parameter	Individual Agent	IMF (Insurance Marketing Firm)
1	Formation	There is no any group required. An individual (who has required qualification) can apply with submitting an application to Insurance Provider Company.	First incorporation as legal entity as mentioned below a. Formation of Company under the Companies Act, 2013 (18 of 2013) or any other previous law related to company which was in force or b. A limited liability partnership formed and registered under the Limited Liability Partnership Act, 2008 or c. Co operative Societies registered under Co-operative Societies Act, 1912 or under any law for registration of Co-operative Societies. or Any other person as may be recognized by the Insurance Regulatory Development Authority of India to act as Insurance Marketing Firm.
2	Capital Required	No capital required	Net worth capital Rs ten lakhs and Rs five lakhs for the IMF who wants to work in aspirational districts selected by NITI Ayog
3	Exams	Compulsory for Insurance Agent	Compulsory for Principal Officer and ISP (Insurance Sales Person). But not required for other Directors, partners or other support staff.
4	Qualification	Minimum 12th Standard	Required Higher educational qualification for Principal officer as mentioned above. But for ISP only 12th slandered required.
5	Tie-up with Insurance Companies	One insurance Company (Composite agent can tie-up with one life, one general and one health)	With two Life, two Life, two General, with option to engage with Agricultural Insurance Company of India Ltd. (AIC and Export Credit Guarantee Corporation Limited (ECGC)
6	Area of operation	Limited to as individual and as per IRDAI guideline	Open their branches in three districts but IMF is free to solicit or procure insurance business from all over the country.

Sr. No.	Parameter	Individual Agent	IMF (Insurance Marketing Firm)
7	Scope of appointment sub agent/Insurance Sales Persons	No scope	The IMF is free to appoint any number of Insurance Sales Person and Principal Officers as per their capacity to increase their business in the concerned operational areas.
8	Perpetual succession	Limited as individual	As a above mentioned legal entity, the IMF has potential of perpetual succession
9	Reliability	Only as individual basis	As a legal entity with registered office under law, the IMFs are more reliable and attractive for the clients.
10	Opportunity to expend business	Limited as per individual capacity	Unlimited because IMF is entitled to increase their hands through appoints their staff as PO and ISP
11	Bargaining capacity	Limited as per as per individual capacity	As a company/group the IMF has more bargaining capacity with insurance companies and can get maximum commission and other service expenses as per IRDAI regulations.
12	Commission	As agent individual commission as per "IRDAI Payment of commission or remuneration or reward to insurance agents and insurance intermediaries regulations 2016"	As IMF commission, as per "IRDAI Payment of commission or remuneration or reward to insurance agents and insurance intermediaries regulations, 2016" In addition to this the IMF may receive fees or charges from life insurance companies as service charges for recruitment, training and mentoring of their ISPs up to 50% of commission and 10% of renewal commission.

Challenges of Insurance Marketing Firm

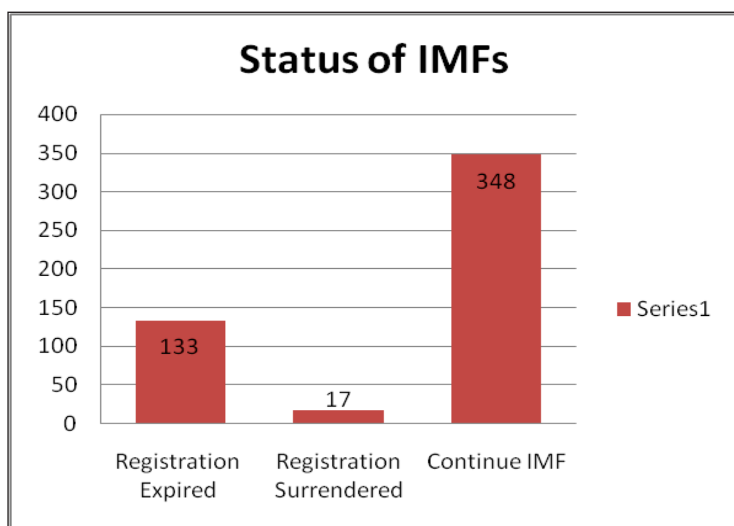

Figure 1.3

All above mentioned facts offer tremendous opportunities for IMFs and provide a vast field to grow their business. But there are many obstacles in the way of IMF. It is observed that out of 496 IMFs, around 3.4 % have surrendered their registration and 26.8% IMFs have not renewed their registration with IRDAI (refer to figure 1.3). This indicates that the IMFs are also facing a lot of challenges at the grassroots level. These include costly auditor fees, company compliance and its operating costs, difficulties in tie-ups with insurance companies/other financial institutions, lack of guidance and support. Many financial

institutions, authorities and NBFCs don't know about this IMF channel. The insurance companies also hesitate to engage IMFs for their other outsourcing activities as per provisions of IRDAI. Due to lack awareness and proper guidance the IMFs are also not able to utilize their full potential and limited to only insurance products.

Recommendations

The following supports are greatly needed to improve this IMF channel:

- The insurance companies and financial institutions like Banks, NBFCs, POST Offices, PFRDA, etc., should be well informed about this IMF channel so that the IMF can tie up with them without any difficulty and undue delay.
- The capacity-building/ training programs for IMFs should be organized on regular basis for the strengthening the capacity of IMFs to encourage and expand the access of insurance and financial services for all. This was also appealed by United Nations to achieve the target no. 8.10 of SDG no. 8 (as mentioned above).
- The government should encourage the implementation of several social security schemes like Atal Pension Yojana, Aam Adami Bima Yojana, NIRMAYA Health Insurance for disabled persons, etc. through IMF Channel.
- It is requested to RBI too to give exemption to IMF to carry out microfinance activities like companies incorporated in section 8 of Indian Companies Act, 2013. It will open a new door for IMF to serve the community.
- There should be a proper helpline number for IMFs to provide appropriate support and guidance.
- The government should make proper provisions to engage IMFs with Gram Panchayats through GPDP (Gram Panchayat Development Plans) and other related programs. The IMFs should be also involved into financial literacy and inclusion related awareness programs. The Government and other authorities should provide proper incentive for the same. This will be a very effective tool to increase insurance coverage in rural areas. These steps will provide direct benefit to the rural people and encourage them to get insurance coverage for not only their lives but also for their crops and cattle which are more vulnerable.

Finally, this is a commendable step taken by IRDAI to establish the IMF channel. It has great potential not only to cover rural and other marginalized populations with insurance and other financial products but also to provide new employment opportunities to unemployed persons to make them self-reliant. TJ

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Insurance in Digital Avatar: A Look at Key Challenges

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Abstract

Insurance has been hitherto considered as an unnecessary expense. Due to complex legal and technical jargons of the insurance contracts and with no immediate benefits available upon purchase of a policy, insurance policies have eluded the portfolio of an average Indian household. Most of the times, people purchase an insurance product with a basic thought-process of expecting more by giving less. Many a times, claims are forged to ensure that the invested capital is not wasted. Even though insurance as a product offers the insured person a complete peace of mind and comprehensive protection against the covered risk event, yet it has not been able to create a unique proposition for itself as a distinguished sector in India. The insurance penetration, a key metric used to symbolise development of insurance sector in a country, is at 4.2% of GDP as of FY 2020-21. Infact, there was also an era where in the name of innovation and in order to drive sales, Insurers came up with hybrid product designs which pegged insurance products as superior alternatives to traditional investment options with an assurance to offer market linked returns in addition to indemnification against the underlying risk underwritten. With aggressive marketing the products immediately grabbed attention, however over time the people subscribing to such products felt trapped as the investment returns were not in-line with traditional financial products prevalent at that time. Also high

service charges ate away a sizeable chunk of the profits so generated from the investment. Since a portion of premium taken was invested in market, the coverage size (Sum Assured) got reduced, which made people question the adequacy of insurance cover. The Indian insurance regulator had to step in with flurry of regulations to introduce reforms in the sector and arrest instances of consumer grievances related to mis-selling. The moment Insurance companies deviated from the domain of pure risk managers, the benefits of having vanilla Insurance protection plans were overshadowed in the process. This is one subset from a host of many intricate problem statements that have often plagued the insurance industry and ultimately, the sector had to bear brunt of unsatisfied customers.

Fast forward to today. It has been 2 years since COVID-19 struck us and still an uncertainty prevails in our mind if the worse is over? Households across the globe have witnessed pay cuts, job losses and death of near and dear ones, including the sole breadwinners of the family. There is a growing sense of urgency among the uninsured population to seek a protection of some sort owing to fear of financial burden that COVID-19 brought along and insurance sector is back into the limelight. This presents an opportune time for the industry to learn from the mistakes of past and play on its own strengths. While it would be quite interesting to see how the journey goes, this article highlights few challenges that Insurance companies may face along the way.

Keywords

Insuretech, Online Delivery of Services, Challenges in Online Delivery of Insurance Services.

Introduction

Insurance sector typically rides on the back of a healthy and wealthy nation. Citizens of a country with high poverty rate would focus on making their ends meet for today, rather than focusing on the needs and risks of tomorrow. As the country develops and there is rise in per capita income, ancillary services sector like insurance develops. Also as industrialization takes place, the (industrial) risk matrix keeps on evolving and a cycle of implementation of best practices from risk management principles coupled with optimizations of existing operations to enhance efficiency kicks in. In order words, prosperity and development of various sectors is a key ingredient in success and flourishing of insurance industry and maturing of risk management capabilities of a country. However, in the post COVID-19 world, this scenario is changing.

Such is the havoc and chaos created by COVID-19 pandemic, that the entire world order had come to standstill. The governments around the world are still reeling under immense pressure to tackle the unprecedented financial challenge that COVID-19 has created. The dent and the scars of losses due to catastrophic events that have hit us in past couple of decades, has resulted in an increasing awareness among the common people in terms of need for a minimum security net to mitigate future challenges. And this need is felt across each section of the society and each sector of the country.

However, in crisis like these, like any other sector, a key challenge faced by Insurance sector is seamless delivery of services. Though all the stakeholders are giving in their best efforts to ensure that take this challenge hands on, yet there is no denying the fact that all the business continuity plans have gone haywire and the scale of the preparations required to have similar level of normalcy as before were never

thought of. The existing delivery chain has been forced to find ways to adapt to the new normal in order to sustain. Technology is being increasingly leveraged and operations are being revamped to deliver services through digital means.

The process right from onboarding of customers to policy servicing and settlement of claim has gone a see through change. From video KYC to delivery of e-policies, online intimation and upload of claim documents to digital verification of claims, insurers are increasing adopting the latest tech to mitigate disruptions for the end customer. Infact, a new breed of insurers, called InsureTechs, have started operations which model their operations such that they have bare minimum physical presence and are entirely tech driven. Apart from the promise of round the clock delivery of services through a click of button, these firms are hit with the millennials as they also provide a transparent option of customizing the product offerings to cater to the unmet needs of demanding customers. At each step, the customer is given a real-time status update of his requested service from the comfort of his home. The flexibility and convenience with which such new age insurers promise to deliver the services has successfully overshadowed the hassles faced for receiving the same service under traditional offline business model a decade back. The cost efficiencies derived by eliminating the services of a middleman are passed onto the customer as discounts or rewards, which acts like a cherry on the cake.

But All That Glitters is Not Gold

It is an undisputed fact that technology has helped insurance in navigating through the rough waters, esp. after COVID-19 struck, and since then there has been growing consensus among the Insurance community that going digital is the best way forward. However, before we finally give our thumbs up to the ongoing digitalization of insurance operations, it is also necessary to see the flip side of the coin:

1. Traditionally insurance business has been largely driven by the word of mouth. The prime reason for such a model has been the intangible nature of insurance contract. While purchasing an insurance policy, the insurer only provides an assurance in the form a written and stamped document that it shall be responsible to make good any losses due to happening of any unfortunate event as specified in risk coverage portion of the contract. Risk averse or conservative people still rely and give preference to such products of existing insurance companies which are reputed and backed by experiences of known ones. In such scenarios the complete online driven process of InsureTech firms is finding a little hesitancy and reluctance from such people as they fail to get any sense of realness in this virtual process.

2. Since the premium payment is required to be made upfront by the insured and the terms and conditions of the risk coverage are provided only after signing the Insurance contract, even the millennials are shy for opting online purchases. The online customer support executives are usually seen as biased professionals with huge sale targets. Thus, people still tend to seek unbiased expert advice from agents and brokers to simplify the jargonized complex legal terms and bring a sense of clarity regarding the features/offerings/ coverages before finalizing an insurance product, which sometimes is unavailable in online services.

3. A large section of our population is still not tech savvy. Though with availability of smartphones and cheaper data connectivity, there has been improvement in terms of digital literacy, yet in a country like India which has diverse cultures and inclination towards regional preferences, a seamless delivery of services with standardized benchmark parameters is still a challenge. Insurance companies are increasingly trying to simplify the process for a smooth transition from offline process to online process, yet it would require mammoth efforts and understanding on part of both - insurers as well as customers, to reach the same level of comfort that was available under traditional offline sales model.

4. Another key challenge would be reaching the poor population, which is still an unachieved target today. Such population may not even have basic access to digital means, let alone being the targeted consumers in the digital world. Though Government of India has announced Jan Suraksha schemes - PMJJBY/ PMSBY or the ambitious Ayushman Bharat scheme as social welfare initiatives to offer social protection through insurance, yet it would be a humongous challenge for insurance companies to ensure last mile delivery of services to this section of population through digital means alone.

5. Online processes may ensure privacy and confidentiality of data at the time of collection of data, but the security aspect in regard to misuse of data through a compromise in system is a huge challenge for an insurer and beyond the control of an insured. Further, cyber-attacks and techniques like website cloning etc. may open Pandora's Box for insurers in their journey of going digital.

6. Lastly, in-organic delivery of services does not serve the true purpose from a risk management perspective considering the very nature of insurance services. Without an element of human touch, the processes may not be completely foolproof leading to failure of even the best delivery models.

Conclusion

There is a famous saying that 'Nothing is perfect'. The world keeps on evolving and adapting to new changes. Same is the though process that is being conveyed here. Online delivery of insurance services in present circumstances is a solution that has been devised to ensure sustainability and continuity of business operations. However it may not be the one-size fits all solution and there would always be a section of society as shown in examples above that would still feel left out. No one knows what is in store for the future. Legislations like the Personal Data Protection Bill or the Information Technology Act or any such laws of future which may pose new challenges for online delivery of service, may make us revisit the current online business model once again. Thus it becomes paramount that industry veterans and experts come together to find pragmatic solutions that go hand-in-hand with real world scenarios instead of an ideal world answers. There is a need for a common platform that helps the relevant stakeholders to collaborate and brain storm new ideas for benefit of the entire sector. The continuous existence of such platform is essential for the continuity of business operations and benefit of all. TJ

BANI and How is it Relevant in Today's Times

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Abstract

BANI (Brittle, Anxious, Non-linear, Incomprehensible)

Made up after realizing the larger chaos that now dominates the environments, this model describes more precisely the challenges today. After spending several months living and fighting against the COVID-19 pandemics, managers and strategists realized that using the VUCA model to deal with the oncoming problems was far from being enough. The previous (VUCA) model has been coined into a new acronym, evolved and adapted to the whole new context lived nowadays. In the BANI model, what was volatile turned into brittle, for it is fragile and unreliable; uncertainty turned into anxiety; complexity turned into non-linearity and ambiguity turned into incomprehensibility. In the BANI world it is very interesting to discuss on how needs and expectations have changed, and also to ponder if the uncertainties it bought, are they really too damaging or we can look at the brighter side of it too.

Keywords

BANI World, Brittle, Anxious, Non-Linear, Incomprehensible.

BANI is a new acronym that was coined in 2016 by an American anthropologist, author, and futurist Jamais Cascio to replace the then-existing VUCA. Let us first try to understand what these acronyms stand for and how they came to be. We can all agree that describing the current state of affairs in a constantly changing world is useful. These two terms were coined to describe the

upheavals of their respective eras, which ranged from the post-Cold War era to the coronavirus pandemic.

"The only constant is change."

VUCA is an acronym for - Volatility, Uncertainty, Complexity, and Ambiguity

VUCA, was born in the late 1980s at the United States Army War College to describe the new world that emerged following the Cold War's end. Little did the term's creators realise that it would play a significant role in explaining the difficulties that US representatives would face in Iraq twenty years later. Or that the term would eventually make its way from the battlefield to boardrooms all over the world and be extensively researched.

The sense of certainty, stability, and familiarity that people were accustomed to was replaced by a state of flux. A condition for managing and leading. VUCA's specific meaning and relevance frequently relates to how people perceive the conditions under which they make decisions, plan ahead, manage risks, foster change, and solve problems. To thrive, leaders had to be ready to disrupt and be disrupted which required flexibility and the ability to adapt to new circumstances. It just meant that you have to be more agile, or flexible in the face of change.

One such example was Airbnb; Airbnb famously disrupted the hotel industry when it launched in 2008. It took market share, impacted hotel rates, inspired the creation of low-cost brands, and saw hotels across the board create restaurants, bars, and lobbies that added local tinge to it. Another example would be UBER Uber's entire system revolves around a simple concept in which they do not own a single cab; instead, they act as an intermediary and connect drivers and riders, then take a cut of the transaction. Uber was a smash hit and has been incredibly successful for years despite the fact that it did not invest much when it was founded. So, it was all about innovate or perish.

The term VUCA primarily served to provide meaning in the face of uncertainty in a world that is constantly changing, increasingly interconnected, and digital. However, the covid-19 pandemic created a scenario in which even VUCA seemed inadequate. As a result, a new acronym emerged: BANI.

From ambiguity to disarray, our transition from VUCA to BANI was actually accelerated by the pandemic.

BANI is an acronym for - Brittle, Anxious, Non-linear, Incomprehensible

This model, developed in response to the larger chaos that now dominates the environments, more precisely describes today's challenges. After living and fighting the COVID-19 pandemics for several months, managers and strategists realised that using the VUCA model to deal with the looming problems was far from sufficient. The previous (VUCA) model has been renamed, evolved, and adapted to the entirely new context in which we now live. In the BANI model, what was volatile became brittle because it is fragile and unreliable; uncertainty became anxiety; complexity became non-linearity; and ambiguity became incomprehensibility.

Brittle – We are vulnerable to disaster at any time, and that all businesses built on shaky foundations can collapse overnight.

A system may appear to be visually functioning well but with every possibility it may be on the verge of collapsing hence even if operations appear to be reliable, flexible and unbreakable, precautions should be taken that we do not have a very high dependency on it. There were many models created prior to the pandemic with a high level of accuracy and effectiveness, but when an unknown monster like Covid hit us, they all came crashing down, and we had too little redundancy built in our models to handle such a magnitude because we never imagined the pandemic would have such a huge impact. All of this only went on to tell us that we need to learn to work with instability being always around the corner.

Anxious – Anxiety is one of the most common symptoms today, not only in people›s personal lives but also in our jobs. We are living on the edge, which creates a sense of urgency and also affects our decision making. Information is the new oil, but too much of it creates a big problem: anxiety.

While technologies are here to help us make decisions, you will inevitably feel powerless and unable to make important choices in times of pressure and tension.

People were confined to their homes with limited physical connects, and news and social media filling us in with unnecessary or extra information only made matters worse. Managing mental health became so important because the lockdown instilled loneliness and a high level of anxiety that had never been experienced before. This can be disorienting. We feel helpless and assume that our decisions will go wrong; we have a nagging feeling that we don't have what it takes to get through these difficult times; and we become increasingly desperate not to miss out on all the opportunities that people say exist.

Nonlinear – What appeared to be a perfect model is no longer so. We live in a world where events appear disjointed and disproportionate at this time. Structured organisations cannot be created without a well-defined and standardised structure. As a result, detailed, long-term planning may no longer be necessary.

The last year's social distancing left us with the impression that we live in a world of disconnected and disproportionate events. The acceleration of events means that the ups and downs are not proportional, and nothing is certain. This completely changes the system of cause and effect that we were used to. Long-term plans, for example, may not be the best fit for the BANI World and should be adaptable to the situation, like when we were locked down we did find ways to stay connected to our business and teams, though the solution initially created weren't robust we did face challenges but stuck a balance with time hence there is no longer a beginning, middle, or end in the current context. You must be prepared to move forward and backward a few times during the game.

Incomprehensible – We need to understand that we don't have control over everything. We have a lot of data to our disposal, but logic no longer seems to make sense. We seek more information in order to gain more control, but this exaggeration may be a scam rather than a solution. Our cognitive ability to process information has not changed, and an abundance of data can leave us with no answers in the current times because the correlations and inferences will lead us nowhere. Even as the amount of information increases, it appears that we understand less.

One example is, when we had so much information about the virus and kept looking for more, but that only led us in circles, and when it hit us hard, we had nowhere to go and didn't know how to respond to what was happening to us, and the more relief measures we knew led to that much more complications, and that, combined with fear over complicated the entire healing process, I would say it was more of a mental illness than a physical one.

How Can Businesses and Individuals Respond to Today's Issues?

Investing in people is a great way to adapt and grow in this context of fragility. Investing in your employees' skills will not only boost their morale and efficiency but will also prepare them for more responsible positions within the organisation. This way, you won't have to look for external candidates and can instead give a promotion to a loyal and knowledgeable employee, this will also put to rest the anxiety related to job stability. When working remotely is the new normal, it is critical to recognise your team members' efforts, provide regular feedback, and stay connected.

Seeking a collaborative culture can improve communication and transparency among individuals, teams, departments, and branches, and investing in training and upskilling employees are all tools that can help organisations become more resilient. Businesses that provide opportunities for upskilling are more likely to attract new talent because it demonstrates a commitment to employees' professional development and career advancement. It can also help to attract ambitious and driven employees who want to make a long-term commitment to a company.

Dealing with anxiety necessitates empathy, patience, and concern for others. Empathy enables people to form social bonds with others. People can respond appropriately in social situations if they understand what others are thinking and feeling. In a way, empathising with others teaches you how to regulate your own emotions, which promotes helpful behavior. Sometimes you just need to listen to your people because a venting window is needed.

In a non-linear world, rigid plans are a burden on business. Companies that do not innovate and instead rely solely on "proven" methods of doing things frequently lag behind their competitors and are unable to adapt to changes in their environment quickly enough. Going forward, it is never a one-size-fits-all process; you must always have a backup plan ready; what is good now may become obsolete in the future, so being agile is essential.

Misunderstanding or Understanding, on the other hand, can be addressed simply through the use of technologies such as Artificial Intelligence, Big Data, and Data Science; however, these proven methodologies of data collection will not always help you to resolve things; your intuitions, along with your risk-taking attitude, will most of the time play a major role. You may not always have the luxury of leisure time to make decisions, but they may need to be made on the fly and may not always produce the desired results; however, you will still be under immense pressure to make those decisions without knowing the outcome.

These can better prepare us for what lies ahead but there are a few things to ponder on:

NO, we did not expect the pandemic to last this long, and YES, it was difficult to adjust to the new Normal; the pandemic waves took us through some very anxious and sorrowful moments, but there were some silver linings too:

- People understood the importance of being protected, and investing on health – Insurance penetrations improved, and people started looking at insurance as not just an income tax saver product
- We saw a technology and digitisations boom – During the Pandemic and the uncertainties that resulted from it, technology was the shining star. It most likely resulted in the preponement of digital advancements that were planned 3-5 years later because they had already become necessary; our business practices changed dramatically as a result.
- Reverse migration to smaller towns occurred, and employment opportunities were created – alternative livelihood was created by rebuilding the rural economy
- Processes evolved and still are and this will be a continuous process

So, the human tendency to adapt to the new normal is a disruptive force that defies any acronym be it a VUCA or a BANI and seeing the brighter side of everything we face would help us grow stronger and more resilient. TJ

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Health Sector Regulation – Need of the Hour

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Abstract

Health sector in India is largest in south Asia and one of the largest in the world.

Hospitals, diagnostics, pharma and other allied services makes the Private Sector Health care in India a formidable servicing machine.

Lack of comprehensive regulation, private health sectors are least bothered about accountability, Lack of standard protocols, procedures leads to lot of complaints and grievances. These are increasingly received by Government and court. Building trust between Patient and health Service provider is important after this covid Pandemic.

Effective regulations will tame the Private sector's profit motivation and it would be helpful to Government to reach Universal Health coverage. Standardised regulation in line with Global Best practices will help Industry with increase in Medical Tourism and subsequent revenue generations.

Regulations will improve investments in under invested area like "Data Infrastructure". Level playing field is important to achieve the Innovation in Health sector, which can be ensured by Disciplined Regulations.

Various Mechanisms are used by Governments all over the world to provide the health care facility to reach their citizens:

- In England and Spain ,National Health Services (NHS) is providing socialized care where Doctors and Hospitals work for Government

- The Canadian Health Care System differs from USA which follows private systems. Canadian Governments pays the Doctors and Hospitalization Bill including for surgery. Cost are paid through Income tax; some payments are not deducted for Low Income Group
- US Health Care Industry dominated by private players and Insurance plays a critical roll.
- India Which follows the hybrid model (both Public and Private) to deliver the Health care facility to their citizens where both private and Government facilities coexist

Indian Health Care System- Over View

Healthcare is one of the largest service sector provides Employment and revenue. Hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment are part of the system. Indian healthcare delivery system is categorised into two major components public and private.

Public Sector

- Primary Health Care- Primary centre
- Secondary Health care- District / Taluk Hospitals
- Tertiary Health care – Specialty Hospitals, Medical colleges, AIIMS

Private Sector

- Primary Health Care- Clinics
- Secondary Health care- Mid size secondary & Nursing Home
- Tertiary Health care – Corporate Hospitals

Indian Regulatory Frame Work

Bank / Finance Industries are regulated by Reserve Bank of India (RBI)

Insurance departments are regulated by Insurance Regulatory and Development Authority of India (IRDAI)

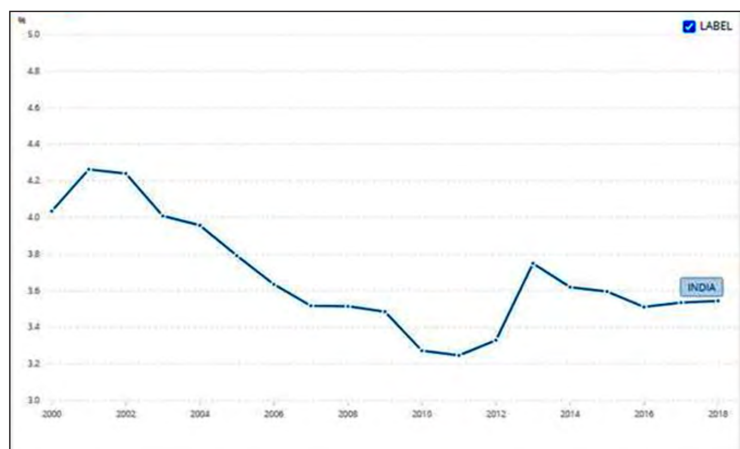
Telecom - Telecom regulatory authority of India (TRAI)

Airline – Directorate General of Civil Aviation (DGCA)

Banks, Insurance, Telecom and Airlines are fairy governed by respective Regulators.

Health sector has no comprehensive Regulator though GDP Percentage Share of expenditure. Health care industry is 3.54%, Such a large industry lacks single regulator and comprehensive regulation.

Table 1: Level of current health expenditure expressed as a percentage of GDP



Source- World Bank

Estimates of current health expenditures include healthcare goods and services consumed during each year. This indicator does not include capital health expenditures such as buildings, machinery, IT and stocks of vaccines for emergency or outbreaks.

Healthcare differs from these industries in many ways, not least because of the need for Central Government coordination where states are the primary players. Yet, the underlying governance philosophy between them is not vastly different.

Private Health Sector

The private health sector consists of, private general practitioners and consultants of different systems (allopathy, siddha and homeopathy) and a variety of non-qualified practitioners and on the other hand hospitals, nursing homes, maternity homes, special hospital etc.

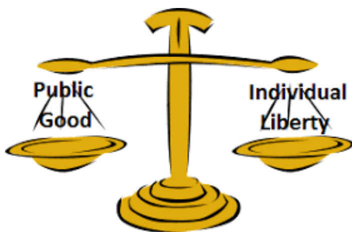
In the hospitals, nursing homes, maternity homes etc, the private sectors share is more than 50% of all such facilities in the country.

Besides this there is the pharmaceutical and medical equipment manufacturing industry, which is overwhelmingly private and pre-dominantly multi-national. There are also laboratories, which carry tests right from blood testing to CT scans.

The healthcare market can increase three-fold to Rs. 8 Lacs Crore by 2022. In Budget 2021,

New diseases and growing middle and upper middle class pushing the Health Insurance Demand in India

Public GOODS Non excludable and Non Rivalrous



The classic understanding of a public good in economics, as per Paul Samuelson's work, is good that is non-excludable and non-rivalrous. No one can be excluded from its use and where the use by one does not reduces the availability of the good to others.

Examples of public goods include air, water, parks, and national security.

Health generally is not considered as a public good, because non-paying individuals (for health insurance, healthy food, etc.) may not be able to achieve good health. Efforts to introduce universal health coverage in all countries will move healthcare closer towards being a public good like Pradhan Mantri Suraksha Bima Yojana, Ayshman Bharath.

Private Health Sector Regulator - Need of the Hour

No Decentralized Pricing System can serve to optimally determine these levels of collective consumption (of the Public Good)- Samuelsson.

Health Industry is not strictly Public Goods, to the extend achieving Universal Health coverage is social justice for any elected Government. Since Public Goods/ Service are not adequately provided by Health Market, Government should guarantee the adequate supply.

Traditional Capitalist view is that Market will govern themselves based on invisible Hand Mechanism (Force of Free Markets).

Increasingly above views are not sustained to its theoretical expectation, handling of Covid Pandemic is a Grand example.

Substantial variation in costs for treating the same disease between public and private sector (outpatient care)

Table 2: Public vs Private – Treatment cost

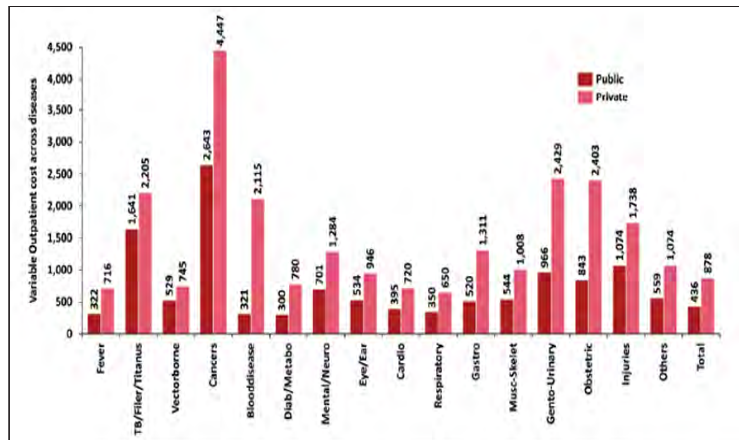


Figure- NSSO data

The private sector dominates in total healthcare provision in India. Around 74 per cent of outpatient care and 65 per cent of hospitalisation care is provided through the private sector in urban India

Lack of Trust

Referring to International Journal of Health policy and Management the important factor (IJHPM- Sumit Kane Michel Calan) that requires Regulatory regime is Lack of Trust between Public and Professionals. Erosion of Trust in the Medical Profession is manifestation of absence of Strong Regulator.

A regulator who has balanced approach, ability to lead and maintain the quality of Service is need of the hour. Regulator should have ability to nurture talent and Trust between medical institution, professionals and patients.

Information Market Failure in Private Health care

Selama Mushkin in her "Towards a definition of Health Economics" in which she discussed how consumers lack of information about quality could result in Market failure in Medical Markets

"Consumers reveal considerable absence of accurate knowledge about quantity and quality of health services required. The nature of the medical service itself and its intangible character reinforce the consumer's Lack of Knowledge about tis purchases and impede a rational choice that could guide the allocation of resources"

Kenneth Arrow the legend in his time and wrote on his paper "Uncertainity and welfare Economics of Medical Care" in which his emphasize on Information and throws light why Healthcare systems do not self-organise using the force of free markets

(i) uncertainty of demand;

(ii) information asymmetry; and

(iii) hyperbolic tendencies

Economic Survey (2020)

Uncertainty of demand

Arrow " Uncertainty as to the quality of the Product (Medical Treatment) is perhaps more intense here than in any other important commodity/ product. Recovery from disease is unpredictable as is its incidence…"

Healthcare markets are characterized by extremely high levels of uncertainty and in particular patients' uncertainty about the effectiveness of medical treatments. It is extremely difficult for patients to evaluate the quality of medical care services.

Considering the Uncertainty at individual level and inelasticity of demand in macro level it is very difficult to produce supply demand convergence. Here the Health Insurance will help to achieve elasticity of demand.

Information Asymmetry

Information asymmetric in medical market should be given special attention. Information asymmetries between physician and their parents is explained by Arrow "Because Medical Knowledge is so complicated, the Information possessed by the physician as to the consequences and possibilities of treatment is necessarily very much greater than that of patient or at least so it is believed by both parties. Further, both parties are aware of this informational inequality, and their relation is coloured by this knowledge"

Buyers of information (patients) rarely know the value of the information until after it is purchased and sometimes never at all. For example, when individuals avail of a healthcare service like dermatology (i.e., skin care), they may be able to readily evaluate the outcome. Therefore, for such services, low-quality providers will have to reduce their price to remain competitive. In contrast, patients who must undergo open-heart surgery may find it very difficult to evaluate its quality and have to therefore rely on the reputation of the hospital/doctor as a proxy for the quality. For some services such as preventive care and/or mental health, patients may never know for sure whether their provider did a good job (Economic Survey -2020)

The Market for Lemons

In the absence of centralized control on information both competent Physicians and incompetent physician will have the same parameters to be assessed by patients.

Paper by Economist George Akerlof which examines how the quality of goods traded in a market can degrade in the presence of Information asymmetry between buyers and sellers, leaving only "lemons" behind. Lemon is a defective used car in market (used car) successfully sold by seller to innocent buyer

When no information on quality is available prior to purchase, quality deteriorates to the lowest level in the market- a serious market failure since mutually advantageous trade involving higher quality products do not take place.

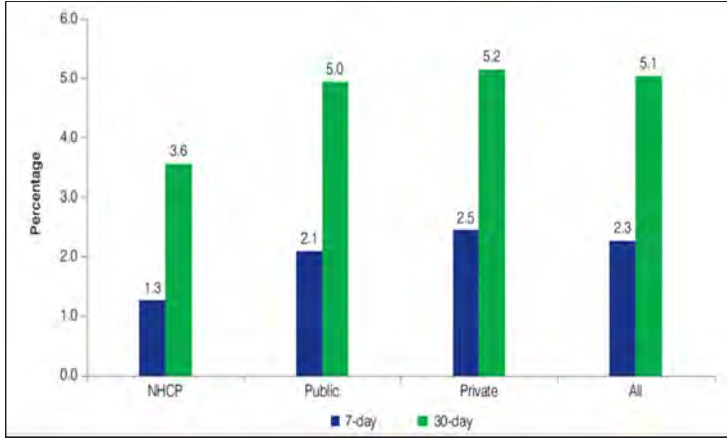
The uninformed/partially informed Patient may use high price as a signal of High quality. Likewise, many signals like equipment, long working hours etc are proxy to quality for under informed patients.

Readmission which require Focus

Among the most common metrics of quality in the hospital setting is unplanned readmissions.

Readmissions typically impose a heavy burden on patients and their families and on health systems in general as a result of unnecessary care. In brief, they are common, costly, and often avoidable.

Table 3: Readmission rates are marginally higher at private hospitals



A paper by Aakash Mohpal, Owen Smith and Sheena Chhabra which based on PMAJAY Data. Paper examines Readmission rates and hospital Mortality.

Approximately 1 in 20 patients in PM-JAY is readmitted to a hospital within 30 days of discharge, and 1 in 50 is readmitted within 7 days

Readmission rates also vary widely across specialties and procedures. Medical packages have significantly higher rates than surgical packages. Readmission rates are slightly higher in private hospitals than in public hospitals. National Health Care Providers (NHCPs) have the lowest readmission rates.

Table 4 : Admission and Readmission

Metric	Original admission	Readmission
Average claim amount	₹12,652	₹19,295
Average length of stay	6.6 days	7.5 days

The mortality rate also varies by hospital type and by specialty. The overall mortality rate is 0.70 percent in public hospitals and 0.50 percent in private hospitals.

Table 5: Mortality rate by specialty and hospital type

Specialty	Death rate (%)	
	Public	Private
Burns Management	5.02	4.66
Cardio-thoracic	0.88	0.56
Cardiology	0.57	0.18
Emergency Room Packages	0.06	0.60
General Medicine	1.46	1.55
General Surgery	0.43	0.18
Interventional Neuroradiology	0.58	0.13
Neo-Natal	0.61	3.84
Neurosurgery	2.46	0.68
Obstetrics and Gynaecology	0.02	0.08
Ophthalmology	0.02	0.01
Oral and Maxillofacial Procedures	0.00	0.02
Orthopedics	0.15	0.07
Otorhinolaryngology	0.03	0.00
Pediatric Medical Management	0.33	1.35
Pediatric Surgery	0.76	0.12
Plastic and Reconstructive	0.38	0.24
Polytrauma	0.25	0.27
Surgical Oncology	0.35	0.28
Urology	0.19	0.03
Total	0.70	0.50

The mortality rate for neonatal procedures is much higher in private hospitals than in public hospitals, 3.84 percent and 0.61 percent respectively.

The pattern of mortality for neurosurgery cases is reversed – the death rate is 0.68 percent in private hospitals versus 2.46 percent in public hospitals.

This brief presents the first estimates of two important quality of care metrics – readmission rates and hospital mortality – under PM-JAY. There is significant variation in both indicators across states, specialties, and procedures, offering insights into how and where to achieve improved performance. Importantly, the exercise also shed light on ways to improve data collection and data quality to help advance the quality of care measurement agenda under PM-JAY. In the longer term, interventions to link quality with payment – an increasingly common feature of mature insurance programs worldwide –may also be considered.

Price Control and Health Regulations

As per National Pharmaceutical Pricing Authority (NPPA), Corporate Multi specialty Hospital Making make profit margins from 100 % to 1,737% on drugs, consumables and diagnostics and these three components account for about 46% of a patient's bill.

Unwarranted hysterectomies (surgical removal of the uterus) in women working as sugarcane cutters in Beed, Maharashtra. This once again underscored the prevalence of this sake of profit maximisation practice across India for sake of profit over the past decade. Across states like Andhra Pradesh, Karnataka, Rajasthan, Chhattisgarh and Bihar, women especially from rural areas and poor households have been subjected to unnecessary hysterectomies in the private sector, often to avail insurance benefits under state-sponsored insurance schemes.

Along with hysterectomies, the rising numbers of Caesarean section births in India, largely performed without any medical indications, is also a matter of grave concern as these procedures pose risks and have long term consequences for maternal and child health. Research has shown that caesarean section births are nearly three times more in the private sector as compared to the public sector in India. With 17% of all institutional deliveries being conducted through caesarean section in 2015-16, India has already crossed the World Health Organizations threshold of 15%.

Regulation of private healthcare providers has other benefits namely:

- ✓ Ensure a certain standard of quality and cost of healthcare, which will check medical malpractice, negligence and financial exploitation of people.
- ✓ Creation of a comprehensive registry of clinical establishments across the country and systematic collection of data and information which will aid in healthcare policy formulation.
- ✓ Better maintenance of records, better surveillance, better response and management of outbreaks and public health emergencies.
- ✓ Standard Treatment Guidelines (STGs) will help healthcare providers and patients to make informed choices about their medical treatment with better clarity.

Clinical Establishment ACT 2010 (CEA 2010)

CEA 2010 -Five crucial aspects of regulation of clinical establishments like

- ➢ Permanent registration
- ➢ Notification of Minimum Standards
- ➢ Notification of Standard Treatment Guidelines
- ➢ Transparency in charges
- ➢ Standardization of rates are yet to be implemented.

However, CEA 2010 is opposed by Indian Medical council which argues CEA will add another layer of Regulation. Private sector Health care providers are also vehemently confronting against CEA 2010. Most Challenging issue regarding implementation of CEA type regulation so far has been that of **regulating rates of healthcare services** in the private healthcare sector.

The David and Goliath – Insurance and Health care

Highly regulated Insurance Industry Vs Under Regulated Health Sector

In every strength lies a weakness and in every weakness lies a strength.

This maxim has held true throughout history – from biblical days to the battles of modern times.

When we fail to recognize both the strengths and weaknesses of different alternatives, we risk not seeing the best solutions.

We tend to overvalue one particular trait, such as Goliath's size, while failing to recognize a seemingly less powerful skill, like David's slingshot ability – Malcom Gladwell. The important thing is that each holds a tactical advantage, depending on the conditions of battle

We over value the power of Health Industry and their importance, we tend to undervalue the power Insurance Regulator vis a vis Health Insurance ability to control Health Care Industry. IRDAI has equipped with all required weapon to indirectly regularize the Health care industry.

If the Government wants regulate private Health care, firth thing they should review to empower the IRDAI by providing Legal teeth.

Regulation which wants to mitigate the Information asymmetry can be achieved through National Digital Health Mission with in Data privacy frame work.

"A standardised system for quality reporting on healthcare for hospitals, physicians, and insurance companies can start with basic input indicators to be reported mandatorily by healthcare stakeholders," NSSO

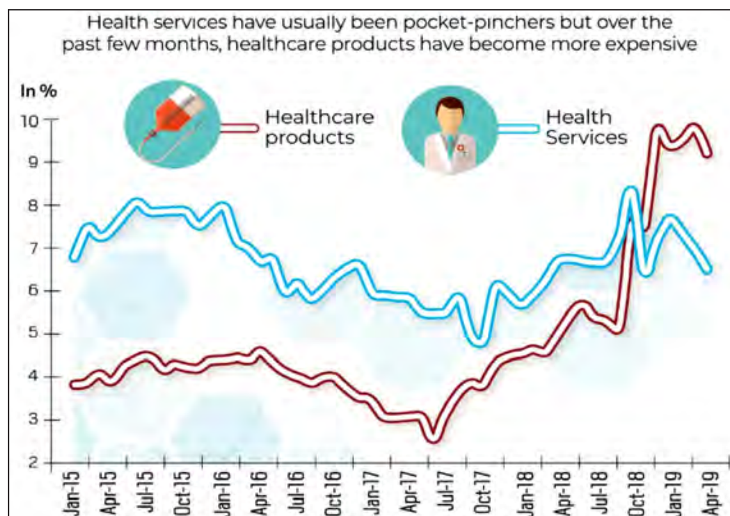
Instead proposing separate regulator for Health Data collection and monitoring, same job can be Mandated to IRDAI who is More equipped with required data.

Health Insurance is already overly regulated any further regulation will reduce innovation in health Insurance product subsequently under penetration of Insurance will become chronic.

Medical inflation and Health Insurance premium

India's healthcare inflation has been rising steadily and more alarmingly, it is increasing at double the rate of overall retail inflation- India today

Table 6 : Medical Inflation



In January 2019, healthcare's contribution to overall retail inflation exceeded that of even education and housing. The contribution of healthcare to overall inflation is more evident in rural areas. In 2018-19, healthcare's contribution to overall rural CPI was around 14 per cent as compared to 8 per cent contribution to urban CPI.

Typically, Insurers are increasing the premium by 15 to 20% for every three to four years to account of Medical Inflation

IRDAI as a Health Regulator

Addressing the CII Insurance and Pensions Summit, Irdai Member (Non-Life) of TL Alamelu said, "We wish that there is a regulator or we are allowed to regulate hospitals."

The term "healthcare industry" is used as an umbrella term while referring to hospitals, diagnostic centres, drugs and pharmaceutical- medical equipment and devices and the insurance industries. The hospital sector is reported to be the major segment hence other Major Industry Which Interacts with Hospital is Insurance.

Regulator who regulates Health Insurance with abundant Data will be a more suitable to regulate Hospitals.

IRDAI and Data Nodal for Hospital Infrastructure

IRDAI with its capacity is already in progress to collect various important Data, with all Data is in custody there is no requirement for separate Agency to regulate at least Hospitals

Reference -Ref. No:IRDAI /HLT/CIR/MISC/145/06/2020

Regulation 29 (iv) of IRDAI (Health Insurance) Regulations, 2016 wherein Insurers are directed that they shall keep the insured informed of the list of Network Providers and display the same on their website. Such list shall be also displayed geography wise and updated as and when there is any change in the Network providers.

2. Reference is also invited to the provisions of Clause (dd) of Schedule I read with Regulation 23 of IRDAI (TPA-Health Services) Regulations, 2016 wherein it is specified that TPAs shall disclose the list of network hospitals with whom it has valid agreement to policy holders, prospects and general public.

3. With respect to the Network Providers engaged for rendering cashless services, Insurers, shall also disclose the following details of the network providers (as per Table – A and Table – B) and these details shall be updated as at 31st March of every financial year and be disclosed by 30th June.

S No.	Medical infrastructure of the Hospital
1	Total Bed strength of the Hospital
2	Number of Doctors
2a.	*Total number of Full-time doctors with qualification approved by MCI in the rolls of the Hospital?*
2b.	*Number of consultants*
2c.	*Number of surgeons or interventionists*
3	Total number of qualified nurses in the hospital
4	Total number of intensive care unit beds in the hospital
5	Number of doctors (with Qualification of MBBS/MD) exclusively available for ICU
6	Number of qualified nurses available exclusively in the Intensive care Units taking all the shifts together
7	Accreditation received by the Hospital (Pre-entry level Certificate or higher level of certificate) issued by National Accreditation Board for Hospitals and Healthcare Providers (NABH) or State Level Certificate (or higher level of certificate) under National Quality Assurance Standards (NQAS), issued by National Health Systems Resources Centre (NHSRC)) (Details of Accreditation shall be provided).

Parameter

1. DOCTOR- BED RATIO
2. NURSE-BED RATIO
3. DOCTOR- BED RATIO IN ICU
4. NURSE- BED RATIO IN ICU
5. AVERAGE ADMISSION TIME
6. AVERAGE DISCHARGE TIME
7. AVERAGE LENGTH OF STAY (ALOS) FOR MEDICAL CASES
8. AVERAGE LENGTH OF STAY (ALOS) FOR SURGICAL CASES
9. C_SECTION RATE

IRDAI may be allowed to regulated the Hospital or through National Digital Health Mission.

Conclusion

It should be emphasised that large scale public financing and public outsourcing of care to private hospitals through major national schemes. It is important to ensure essential regulation of quality, rationality and standards of care. It is expected that sections of private providers will start behaving rationally, ethically and will start providing standard quality of care just by joining publicly funded programmes, without the need to ensure acceptance of essential public standards and regulation as a norm by the entire sector. In view of the situation and health problems and the context of commercialized practice, regulation of those who provide the nation's health care is an urgent necessity and this entire process of regulation must have the end user (consumer) represented on the regulating bodies. Health care is far from being a classic market for goods

and services. However, prices provide important signals to health care providers, given that they determine the level of financial resources to deliver health care services. Ensuring Level playing Field to all participants and Quality of Service, Health Regulator is Need of the Hour. TJ

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The Role of Intermediaries in the Indian General Insurance Sector- An Emerging Perspective

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Distribution is the lynchpin of the marketing strategy of any General Insurance company. This is owing to the complex and diverse needs of the typical general insurance customer, a wide array of products and various customer segments. A typical general insurance customer could be a mammoth business conglomerate earning billions of dollars in revenue or a farm labourer subsisting on less than 1 $ per day. A general insurance contract may possess a value of just Rs. 5,000/- or run into multiple billion dollars. The insured item could be the ubiquitous motor vehicle or could be the rare, exceptional satellite. The subject matter of insurance could be tangible or intangible. Also, even in the most sophisticated and evolved markets general insurance is sold than bought. The risk management needs of each customer are different, maybe even unique. The customers are geographically dispersed and need personalized selling. All the above factors make distribution of general insurance products a complex, multi-faceted activity.

An intermediary's role in many sectors is limited to taking the product to the customer at the point of consumption. However, in general insurance the intermediary has a much more comprehensive role to play. Compared to other sectors like FMCG, consumer durables etc., the general insurance sector the customer is oblivious of the product (at least in the nascent stages in the market) unless he is a seasoned customer. So, the distributor will have to play a pivotal role in communication of product attributes

and the value proposition. Here, the distributor plays an active role in selling of the product and not a passive role.

The intermediary plays the following roles:-

i) **Widening the reach and access**:- Enhancing the access and reach of the customer i.e. In taking the product to every nook and corner of the market. Since, an average general insurance customer is geographically dispersed across the market, the product will have to be taken to the customer and this is possible only through a well spread out network.

ii) **Increased penetration of the market**:- The intermediary will have to play a very key role in cultivating the buying habit in the general insurance customers. The nature of the general insurance business is such that the insurer will have to make an aggressive selling effort to sell an insurance product and this requires the active participation of the intermediaries.

iii) **Product innovation**: - A standard general insurance product may not always suit the requirement of a customer especially in case of a corporate customer. Each corporate/SMB may have unique needs, varying approaches to risk management. This requires tailor made products or even creation of new products. An intermediary who frequently interacts with the customers and who possesses a better understanding of the needs of the customer can leverage these advantages and assist the insurer in product innovation.

The Indian general insurance market is on the cusp of a paradigm change. The advent of the private sector coupled with de-tariffing has heralded a tectonic shift in the general insurance sector. The marketing efforts of the insurers have intensified. The intense competition has sparked off a price war with the insurers vying with each other to grab the other's business. However, insurers cannot survive in the market by competing for the same pie forever. Being a sector with lower entry barriers, the sector has been attracting new players in hordes despite the intense competition. The existing players will have to expand their market, span wide geographies, reach to the interiors of the market, tap new markets, create new innovative products etc. This will necessitate a major evolution in the distribution channels & the role they play in the marketing of general insurance products in India. In the succeeding paragraphs, we will examine the various types of intermediaries and their role in the Indian general insurance sector.

1) **Agent:-** An agent is the most ubiquitous and the most common intermediary. An agent sells the insurance products of an insurer. The agent enables the insurer to widen its reach and reach its customers in the nook and corner of the market. An agent is ideally suited to sell products to retail customers. Policies like mediclaim, P.A., householders, shopkeepers etc. are simple policies which can be sold by an agent. Aggressive and intensive personalized selling is required to sell general insurance products to retail customers especially in markets like India. Agency is the best medium to increase penetration of insurance amongst retail customers. The Indian market being a widely dispersed market will be better serviced by agents spanning across a geographical area. This channel will be the most channel to increase penetration amongst the retails and to a certain extent the SME sector.

2) **Broker:-** A broker is one of the most important intermediaries in the realm of distribution in general insurance. Unlike an agent, the broker represents the insured. The broker plays an advisory role and works as an insurance consultant for the insured. A typical insurance customer might not possess an in-depth knowledge of various facets of insurance. He might not be aware of the various covers available in the market. He also might not be aware of the intricacies and nitty gritty aspects of various insurance covers. The commonly sold insurance covers might have several gaps in the coverage, which might be unknown to the customer. Moreover, the customer might have unique insurance needs, which requires specialised knowledge, expertise and service. This is where a broker adds value to an insurance customer.

A broker should ideally be a repository of technical expertise

and knowledge who should be capable of advising the client on the right kind of coverages. Moreover, a broker has a network comprising of several insurance companies, which can be leveraged to get the most suitable coverage and the most competitive price for the customer. A broker enhances the bargaining power of the average customer.

A client who cannot afford to set up a separate insurance department and invest funds or leverage scale to create in-house expertise can utilize the services of an insurance broker. We live in the age of outsourcing where-in non-core activities are outsourced. All the above factors create the need for professional insurance brokers.

A broker plays a multi-faceted role in distribution of general insurance products. Apart from pricing, terms and condition etc., a broker can play an invaluable role in product innovation as he is closer to the customer and is well versed with the needs of the customer. A broker can combine his domain knowledge of insurance with a perspective of the client's insurance and risk management needs to innovate products. In highly evolved markets, a broker can file products of his own while the same is yet to be permitted in India. A broker is ideally suited to service the corporates and SMEs. A broker can drive increase in penetration of general insurance products especially in case of products like liability where penetration levels are lower even amongst the corporates and the SMEs. A broker can play a key role in selling innovative insurance products. In the Indian scenario, there have been instances of brokers selling retail products. This is in variance to the commonly perceived role of the broker as that of serving corporates and SMEs. However, since the Indian market is a grossly underpenetrated, one a broker can also play a significant role in the retail segment thereby filing the gap in service levels offered by the existing customers.

3) **Bancassurance:-** Bancassurance is one of the most important emerging channels. In general, as compared to general insurance companies, banks have a much wider reach in terms of customer base. Also, banks interact more frequently with customers and develop good rapport with them. This places the bank in a unique position to leverage its strengths of customer data and rapport with the customer to sell policies. A bank is a very significant medium to enhance penetration of insurance especially amongst the retail customers and the SMEs. A bank can also bring down the cost of distribution tremendously by leveraging economies of scale. A bank can sell a wide gamut of financial services products viz. General insurance, life insurance, mutual funds etc. in addition to banking products. This enables banks to reap the benefits of scale economies and lower the costs of distribution.

Despite the above advantages, banks are constrained due to lack of domain knowledge of general insurance products. Hence, they have to actively partner with a general insurer to sell general insurance products. In India, public sector banks with their wide reach and armed with scale of economy are ideally suited for bancassurance. However, lack of an aggressive selling culture coupled with pre-occupation with their core business has prevented bancassurance from taking off in a big way in India. On the other hand, private sector banks and foreign banks in spite of their aggressive selling culture are constrained in terms of limited reach and scale. Moreover, the IRDAI regulations permit a bank to partner with only a few general insurance companies. This limits the scope of the bank in penetrating the market. For bancassurance to take a giant leap in India, the general insurance companies will have to aggressively partner with the banks in various ways and utilise the advantages preferred by the banks to the hilt. Banks hitherto have been selling only simple policies like householders, shopkeepers, PA etc. But, in my view if banks stop viewing themselves as mere conduits for sale of general insurance products and consider themselves as complete risk management advisors of their clients, they can leverage their reach and sell even complex, tailor made innovative products provided they acquire requisite expertise.

4) **Internet: -** The internet is probably the most pervasive medium for the sale of any product. It is accessible by anyone from anywhere and maximizes reach transcending geographical barriers. In the coming future, the Web will emerge as a potent medium for sale of general insurance products. As mentioned earlier, the net is easily accessible and any potential customer can access any of the web sites of the insurer and acquire knowledge about the various products of the insurer. However, the insurance contract being highly legal and technical, a potential customer or even a seasoned customer may not comprehend the nitty-gritties of any insurance product. This calls for intensive personalised selling. This problem can be solved or at least alleviated by setting up call centres manned by people with product knowledge who can effectively respond to the queries of the customers. The costs of distribution can be brought down immensely by using this medium. The net can also be used as a cost effective medium for servicing customers. Some of the activities which take place in a brick and mortar office viz. issuance of policy documents, preliminary processing of claims, preparation of receipts, submission of claim form and documents etc., can be done through the Web thereby reducing costs. However, the insurer will have to ensure that adequate internal controls are in place as the Web will enhance third party access to key information. However, the net-selling despite its numerous advantages is a passive selling medium and not an active selling one. This channel is effective only if the customer endeavours to buy a product and not vice-versa. However, it can be an effective medium to advertise general insurance products and enhance penetration. In a market like India where the awareness of general insurance products is low, the effectiveness of the Web as a medium of sale is very much constrained. In highly evolved markets like U.K., where the awareness of general insurance products is very high, the net is gaining ground as an effective marketing intermediary e.g., a significant portion of the Motor sales take place through the Web. In India, where the awareness of general insurance products is on the rise and products like Motor Insurance are statutory compulsions, the advantages of the Internet can be leveraged to harness better sales. The net has been an effective medium for sale of products like Motor, householders, PA etc. However, for Mediclaim Insurance which requires intensive personalised selling and has an emotional and security appeal to the customer online sales have not been encouraging. The customers in such cases may prefer the services of intermediaries like agents, brokers etc. Who can offer personalized and advisory services and in whom the customer can repose faith. A retail customer has relatively much lower bargaining power as compared to a corporate or even an SME. However, the Web will change that. The customer through the Web will have access to the products, prices, terms, conditions, coverages offered by various insurers and can conduct a comparative analysis to make a choice. There are even product comparison web sites, which offer information and advice in this regard. This enhances the bargaining power of a retail customer. Another area where the net will have an impact is the area of branding. Branding in the insurance sector has been hitherto a relatively low key activity. But, with the advent of the Web the significance of branding assumes a new dimension. A powerful brand, be it a product brand or a corporate brand will reinforce a strong sense of recall which will give a comparative advantage vis-a-vis other companies. A customer buying products over the net will prefer products which will come to his mind more quickly and strongly than others.

5) **Other Intermediaries:-** There are several other emerging intermediaries like retail outlets, web aggregators, petrol filling stations, car dealers, telemarketers etc., who have access to a vast base of customers. These intermediaries can act as a link between the buyer and the seller for sale of general insurance products. This

will enhance the penetration of general insurance in the country.

Considering a futuristic perspective, intermediaries in general insurance face myriad challenges as well as opportunities. There is a plethora of opportunities considering the humongous untapped potential and the significant level of under penetration of the market. The challenges, however, are manifold due to diverse factors such as changes in regulation, advent of new technologies, emergence of new risks, new forms of intermediaries etc. The challenges are not confined to mere sale of the product. Ensuring and securing the renewal is also an enormous task. Customer service should be flawless. Advising the client in a suitable manner with regard to the coverage, terms and conditions of the product, handling the issues related to claims is of paramount importance. Any intermediary ranging from a broker who has a complex liability product to an agent who sells a retail product needs to perform the roles of an insurance advisor with fineness. In today's scenario, wherein there is a growing breed of knowledgeable and well informed clients thanks to the preponderance of the information age, in-depth product knowledge and expertise of the product will not only help an intermediary to score an edge over his/her competitors but also becomes an essential aspect in customer service. This becomes all the more important in view of proliferation of intermediaries like web aggregators which are product comparison web sites. So, it becomes imperative for an intermediary to not just be well informed but also possess deep levels of expertise. This will help in strengthening relationships with the clients.

Emergence of new risks & threats like cyber attacks, pandemics, changes in technology, statutory and regulatory changes etc., present novel challenges to the intermediaries as they have to present new solutions and offer suitable advice to their clients. This requires greater levels of expertise and experience. New risks require novel insurance solutions to address the gaps in coverage. Regulatory changes like use and file guidelines, standardisation of products etc need changes in the approach of intermediaries. Use & file guidelines will enable better product innovation by enabling a quicker response to the needs of the client. Standardisation of the product will lead to easier selling of the product as product features are uniform but differentiation of the product from another will become difficult due the uniform features of the wide gamut of products. Nevertheless, these developments necessitate changes in skill sets and orientation. Technological changes not only require the intermediaries to develop new covers to suit the needs of their clients but also present new opportunities in marketing products. Intermediaries can leverage technology in a suitable manner to generate leads, effectively communicate with clients and provide better customer service including policy issuance and claims management. Distribution and selling of general insurance products is not just the onus of the intermediary. It requires an equally wholesome contribution from the insurance companies. Insurance companies will have to supplement the efforts of the intermediary & bridge the gap to enable the intermediaries to overcome their constraints so there is a greater sale of general insurance products and enhanced levels of penetration. This is because not all intermediaries may have adequate levels of expertise in all aspects of insurance. For some intermediaries like banks, travel agents etc., insurance is not the core business. So, insurance companies will have to fill the gap in levels of expertise by institutionalising set ups like call centres, online product information, frequently asked questions and the relevant answers, blogs etc., to make up for the shortcomings if any in the levels of knowledge and expertise of the intermediaries. The insurance companies will have to distinguish between intermediaries whose mainstream activity is insurance and other intermediaries whose core activity is other than insurance business to craft a business development strategy focused on enhancing penetration of insurance business. To tap the latent potential of insurance business in a vast market like India which has a diverse set of corporate customers, a vast multitude of SME customers, of retail customers omnipresent in a geographically dispersed market, an insurer will have to tap various intermediaries/ sales channels. Optimal utilisation of all distribution channels is essential for enhanced penetration and effective servicing of this market. TJ

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(Signature Author I) (Signature Author II)

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Date:

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Training Program Schedule – May 2022 and June 2022

<table>
<tr><th>Sr. No.</th><th>Name of the program</th><th>Program Date</th><th>Types of Program</th><th>Fees for Residents</th><th>Fees for Non-Residents</th></tr>
<tr><td colspan="6">May 2022</td></tr>
<tr><td>1</td><td>Personal Financial Planning and Life Insurance</td><td>06 May 2022</td><td>Online-Calendar Program</td><td colspan="2">₹ 1,500/- + 18% G.S.T.</td></tr>
<tr><td>2</td><td>Compliance, Governance and Risk Management (IRCC)</td><td>09-11 May 2022</td><td>Online-Calendar Program</td><td colspan="2">₹ 7,500/- + 18% G.S.T.</td></tr>
<tr><td>3</td><td>Motor OD Insurance - Underwriting and Claims</td><td>18-19 May 2022</td><td>Offline-Calendar Program- Mumbai</td><td>₹ 10,000/- + G.S.T.</td><td>₹ 7,200/- + G.S.T.</td></tr>
<tr><td>4</td><td>Ind-AS and Accounting Standards for Insurance</td><td>20-21 May 2022</td><td>Online-Calendar Program</td><td colspan="2">₹ 3,000/- + 18% GST</td></tr>
<tr><td>5</td><td>Risk Based Capital</td><td>26 May 2022</td><td>Online-Calendar Program</td><td colspan="2">₹ 1,500/- + 18% G.S.T.</td></tr>
<tr><td>6</td><td>Investment Management in Life Insurance Companies</td><td>30-31 May 2022</td><td>Online-Calendar Program</td><td colspan="2">₹ 3,000/- + 18% G.S.T.</td></tr>
<tr><td>7</td><td>Introduction to Fire Insurance (in a comprehensive way)</td><td>30-31 May 2022</td><td>Offline-Calendar Program- Kolkata</td><td>₹ 10,000/- + G.S.T.</td><td>₹ 7,200/- + G.S.T.</td></tr>
<tr><td colspan="6">June 2022</td></tr>
<tr><td>1</td><td>Introduction to Agriculture Insurance</td><td>07-08 June 2022</td><td>Offline-Calendar Program- Mumbai</td><td>₹ 10,000/- + G.S.T.</td><td>₹ 7,200/- + G.S.T.</td></tr>
<tr><td>2</td><td>Bancassurance for Life Insurance Managers</td><td>14-15 June 2022</td><td>Offline-Calendar Program- Mumbai</td><td>₹ 10,000/- + G.S.T.</td><td>₹ 7,200/- + G.S.T.</td></tr>
<tr><td>3</td><td>Managing Marine Cargo Underwriting and Claims</td><td>16-17 June 2022</td><td>Offline-Calendar Program- Kolkata</td><td>₹ 10,000/- + G.S.T.</td><td>₹ 7,200/- + G.S.T.</td></tr>
<tr><td>4</td><td>Cyber Liability and Crime Insurance</td><td>21-22 June 2022</td><td>Offline-Calendar Program- Mumbai</td><td>₹ 10,000/- + G.S.T.</td><td>₹ 7,200/- + G.S.T.</td></tr>
<tr><td>5</td><td>Management of Non-Renewable Energy Insurance -Thermal Power Plant Insurance</td><td>23-24 June 2022</td><td>Offline-Calendar Program- Mumbai</td><td>₹ 10,000/- + G.S.T.</td><td>₹ 7,200/- + G.S.T.</td></tr>
<tr><td>6</td><td>Health Insurance Underwriting</td><td>28 June 2022</td><td>Online-Calendar Program</td><td colspan="2">₹ 1,500/- + 18% G.S.T.</td></tr>
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1.	Place of Publication	Mumbai
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