A bright future for life insurance in India in a post-pandemic world

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Arthur D Little

Content

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Executive summary

The COVID-19 pandemic has created unforeseen challenges for businesses across the globe. The life insurance industry is no exception, having sustained a significant decline in business in the first six months of 2020. By one estimate, the industry lost approximately 4 million policies and around US $6 billion in revenues (i.e., approximately $2 billion in new business premiums and around $4 billion in renewal premiums).

Nevertheless, insurance companies weathered the crisis well and are now enjoying a strong rebound from the second quarter of 2020-2021 onward, thanks to aggressive steps to meet the changing needs and behaviors of customers. New business premiums have risen around 16% year-on-year (YOY) in the second quarter, mainly due to greater adoption of term plans as compared to unit-linked insurance plans (ULIPs). This was the result of a shift in customers' perception of life insurance as risk cover rather than an investment product.

Due to the pandemic, many now consider insurance to be a necessary safeguard against unforeseen circumstances. So, while life insurance may still be some way from a pull product, it has definitely achieved the status of a nudge product.

Such changes in consumer mindset have reminded companies of the importance of customer centricity. Players have been quick to adapt and have introduced specific covers for pandemics, policies tailor-made to customer expectations and requirements, digital access to services, and enhanced claim settlement mechanisms.

To fully capture the opportunity created by a changed customer mindset, we believe that CEOs need to focus on the following transformation agenda:

- Pursue product innovation.
- Invest in digital access and mechanisms across the entire value chain.
- Ensure Agile teams and dynamic work processes.
- Reskill staff.
- Explore complementary and value-added services (e.g., hospital tie-ups, online consultations, pharmacy discounts).

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1. Impact of COVID-19 on the life insurance sector in India

Before the COVID-19-induced lockdown, the life insurance industry in India was on a stable footing and growing strongly. All major metrics including premiums saw double-digit YOY growth in January 2020. New business premiums were up 24% YOY in January at around $2.3 billion. First-year premium collections in January also showed similar growth, coming in at around $2.7 billion or +18% YOY, reflecting the strong uptick in new policy purchases.

When the COVID-19 pandemic arrived in India, it reversed the positive trends seen earlier. Life insurance businesses were hit hard while customer behavior made a paradigm shift.

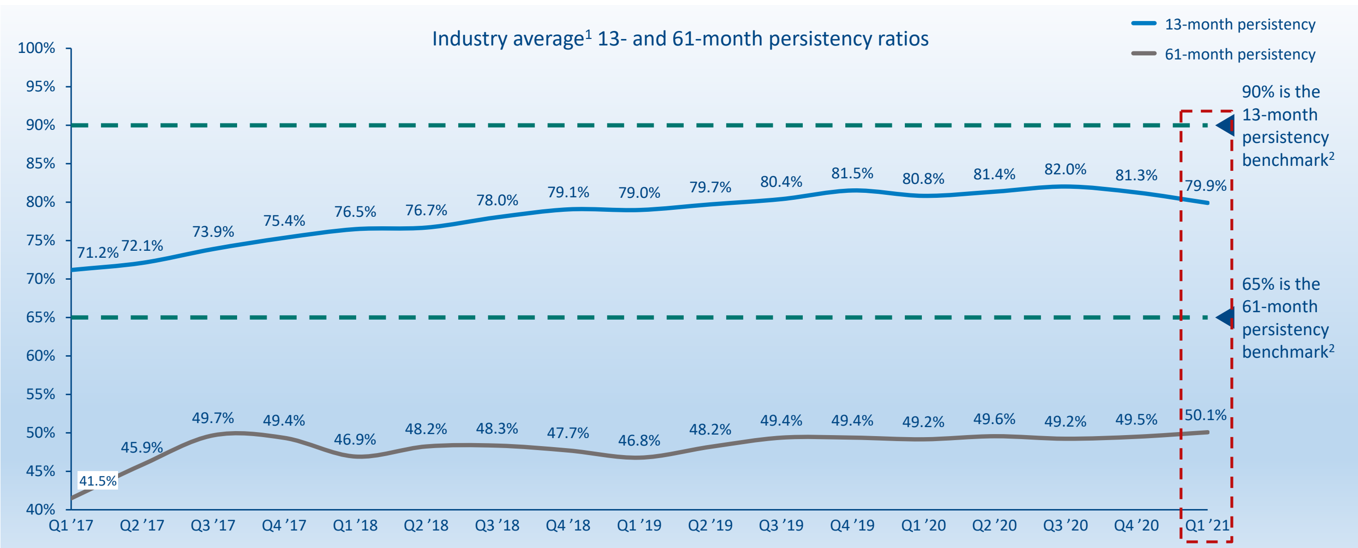
Key industry metrics faced unprecedented declines as operations were disrupted

Starting in March 2020, life insurance companies, including Life Insurance Corporation of India (LIC), reported a contraction in new business premiums for four months in a row. Due to uncertainty over salaries and job loss, there were fewer takers for new policies.

Our analysis, based on data and research insights provided by Benori Knowledge, suggests that several business metrics took a severe hit in the months that ensued:

- **Renewals.** The two productive months for the insurance industry - March for life and April for non-life corporate renewals - declined by around 30% and 15% YOY, respectively. Due to the lockdown and choppy markets, customers utilized their respective grace periods to renew policies.
- **Persistency ratios.** In line with expectations, the **13-month persistency ratio** declined in the first quarter of 2020-2021 to 79.9% from 81.3% (sample of 12 major life insurers in India) in the fourth quarter of 2019-20, the lowest levels for the previous six quarters, as people started conserving liquidity for the upcoming tough times (see Figure 1). The **61-month persistency ratio** sprang a surprise by marginally increasing quarter-over-quarter to 50.1% from 49.5% in the same sample. This was due to the stickiness of long-standing policy holders not wanting to let a policy lapse after paying regular premiums for five years.

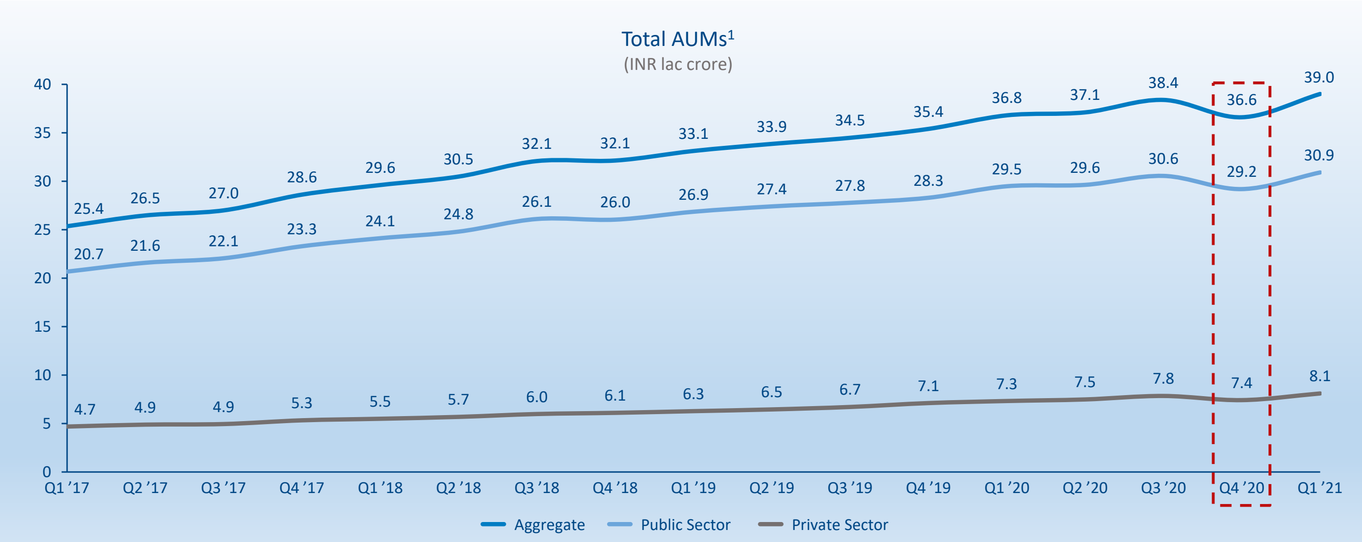
Figure 1: Industry persistency ratios have continued to remain significantly below benchmarks and may have received further headwinds from COVID-19



- In line with expectations, 13-month persistency ratio declined moderately in Q1 2021 as people started conserving liquidity for the upcoming tough phase
- 61-month persistency ratio sprung up a surprise by marginally increasing QoQ, probably due to stickiness of consumers (why let a policy lapse after paying regular premiums for five years?) and the positive mindset toward the importance of risk protection

Source: Arthur D. Little analysis
Notes: 1) Simple average of a sample of 12 major life insurance players; 2) IRDAI prescribed benchmark

Figure 2: AUMs of the industry continued to grow before COVID-19 struck in Q4 of FY 2020



Total linked and non-linked AUMs declined in Q4 of 2021 due to two major identifiable reasons:

- The entire financial market in India took a huge hit in March 2020 due to the oncoming COVID-19 crisis
- AUMs also declined in part due to redemptions of schemes by customers to conserve cash and increase liquidity for any immediate needs

Source: Arthur D. Little analysis
Note: 1) Aggregate of a sample of 12 major life insurance players

- **Assets under management (AUMs).** Total linked and non-linked AUMs (sample of 12 major life insurers in India) declined in the fourth quarter of 2019-2020 for two main reasons (see Figure 2):
  - A sharp decline in Indian stock markets in March 2020 due to the COVID-19 crisis, with major stock indices trading at year-to-date lows.
  - Redemptions by customers to conserve cash and increase liquidity for immediate needs.

Customer behavior saw a structural change due to COVID-19

The industry faced not only a supply-side disruption in businesses but also demand-side pressure, with customer behavior changing sharply and permanently after the pandemic struck. The new customer behavior trends have slowly come to light:

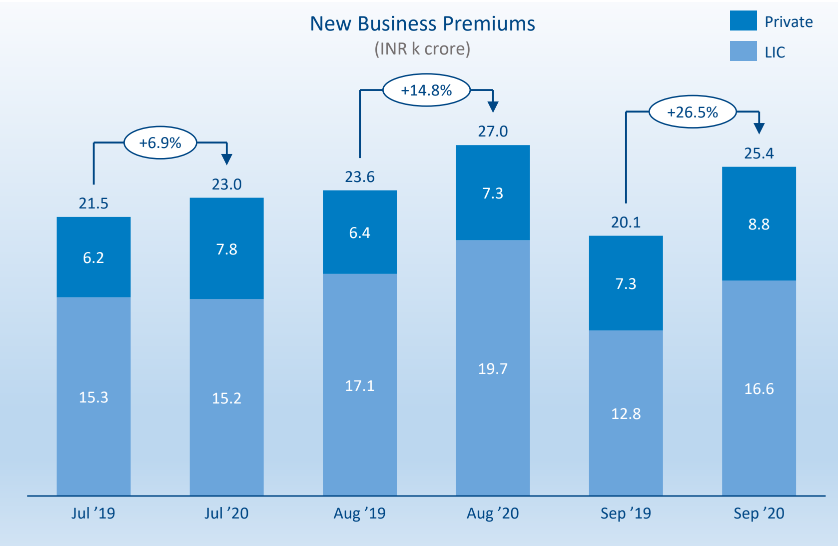
- **Life insurance is now viewed as a pure risk cover.** Partly due to the psychological impact of COVID-19, customers now view life insurance as pure risk protection, rather than a protection-and-investment product. Pure term plans and protection-based products are now preferred to products that also serve as investments, such as ULIP.
- **Life insurance is now seen as essential spending.** In a survey from Benori Knowledge (with more than 100 respondents), 70% of uninsured respondents said that they now feel the need to purchase a life insurance policy. Customers genuinely value life insurance products, and the uninsured group is now treating life insurance as an indispensable need.
- **Customers are demanding product innovation and customization.** In our survey, 70% of respondents cited changed expectations of life insurance post COVID-19. The top three expectations are:
  1. Innovative product features (55%).
  2. Enhanced benefits (40%) and flexibility in payments (45%).
  3. Digital capabilities of the insurer (30%).

  The pandemic has accentuated customers' preference for tailored risk cover that caters to their unique situations. Needs-based policy adoption by customers has been found more effective than traditional push-based selling by insurance agents.
- **Customers are driving digital adoption in the industry.** With a strong focus on their health, customers are taking all precautions to minimize contact with agents and favor online and zero-contact channels to purchase insurance. In the process, they are also observing the convenience of digital channels.

The industry is now slowly rebounding and is on track to attain pre-COVID-19 levels of business

From the second quarter of 2020-2021, businesses have enjoyed robust growth in new business premiums (increasing 16% YOY), in line with a general pickup in economic activity (see Figure 3). Of these new business premiums, single-premium policies have been an important source of growth as many policyholders do not want to commit to long-duration periodic investments.

Figure 3: In Q2 FY 2021, businesses have shown a strong rebound as characterized by robust growth in new business premiums



After witnessing a YoY slump in new business premiums during Q1, life insurers have seen a turnaround in Q2

This has mainly been on account of new business premiums rising ~16% in Q2, indicating a revival in line with pickup in economic activity

In September, new business premiums were up 26.5% YoY**,** with a major chunk being contributed by LIC (+30% YoY to INR 16.6k crore)

"The demand for term plans has gone up in the last few months due to the ongoing pandemic, as people have now become aware of the need to have term insurance. The life insurance industry is witnessing a sharp uptake in single premium policies, as many policyholders don't want to commit investments for the longer duration"

Source: IRDAI, Arthur D. Little analysis

2. The life insurance industry’s response to COVID-19

In response to COVID-19, the insurance industry took some necessary measures to keep businesses going, including:

- **Shifting to 100% work from home (WFH) and providing benefits for staff.** Almost all insurers moved their staff to working from home, aiming for minimal impact on customer service by making the transition as seamless as possible. Insurers provided employees with remote workstations and laptops to smooth the transition, and some employers also offered temporary advance commission to help navigate any immediate cash crunch due to the lockdown.
- **Rationalizing costs to minimize bottom-line impact.** Most insurers looked at all options to rationalize costs. The two big costs of rent and utilities were lower as a result of the lockdown. Square footage of branches was significantly reduced by operating at minimum required capacity.
- **Shifting to digital service to protect the top line.** Insurers moved to a primarily digital services model, setting up a digitally enabled omnichannel distribution system. Customers could complete every stage of the sales process online, from discovery of information to advice and purchase.
- **Investing in cybersecurity tools and systems before shifting operations online.** Most major players invested in cybersecurity. Given the increased incidence of malicious and fraudulent activities online, an investment in top-of-the line cybersecurity offerings was essential.

Q&A with Tarun Chugh, managing director & CEO at Bajaj Allianz Life

In a recent Arthur D. Little-Benori webinar, we interviewed the managing director and CEO of Bajaj Allianz Life, Mr. Tarun Chugh. We share a portion of the discussion here:

Q: What was the state of the business pre-COVID-19? What were some of the structural and overall challenges that the industry was facing before COVID-19 happened?

A: About a year back, all players were progressing linearly toward digital. March of 2020 came and hit us like a lightning bolt.

The industry generally writes around 15% of its top line in the last 20 days of the financial year (ending March 31) because of tax planning, and everybody is looking to close out their financials for the year. There is a lot of renewal premium that is targeted to come during this period. However, [in 2020], that suddenly went into a tailspin.

Even though the lockdown came as a shock, at Bajaj, we were well prepared proactively for the lockdown. We shut all offices and all branches for two days in the week before the lockdown and worked from home in order to discover gaps. Even though we had the entire digital infrastructure, we realized that just digital was not going to be enough because the situation demanded more of being digital as well as virtual, which is a different scenario altogether.

Q: Were you able to seamlessly transition operations internally or were there any issues?

A: We worked on a lot of strategic decisions and had to figure out where the customer is going to be. We looked at China, since their COVID-19 cycle was running three months earlier than other places. We saw the transition to technology and digital in China as soon as the spread of COVID-19 stopped there, and we worked on implementing the same at our organization.

Our utmost priority was employee safety. So, we shut down branches and call centers to avoid usage of common telephones by multiple employees, etc. Instead, we shifted operations into the homes of our employees by letting them WFH so that they weren't exposed to any health risks.

We were able to transition all our operations into a WFH setup within three days of the lockdown. Our call centers took a couple of weeks longer.

Q: Did any unexpected insights come out of your customers' buying behavior post-COVID-19?

A: Largely, trends showed that customers were keeping cash in the bank for safety. Contrary to common belief, we saw that customers (and not corporations) were in fact leading digitization. Within the customer segments, we saw that self-employed customers were preserving a lot more cash and did not have the appetite to invest in a five-year product, so our persistency ratios took a hit.

We used to have about 70% of our customer's money coming in through physical modes, like checks. That suddenly reversed to 70% digital means. We came up with a novel feature on our app: through a secure link, we could send our customers to our app and they could see the form that we were filling for them using screen-share features.

The last five to six months have brought change that is typically seen over five to six years. Customers are now suddenly willing to buy risk products. Life insurance has generally been a hard push product, but after COVID-19, I believe it will become a slight nudge product.

Q: What are your biggest priorities going forward? What are some of the big initiatives you're driving?

A: I think customer centricity is possibly the most important bit. Within customer centricity, I think the biggest issue in life insurance is trust. The second bit is how do you keep evolving yourself as a customer's life goals keep evolving. And the third bit is a push toward data.

We've been investing in digital technology for a long time and 70% of the investments usually have been in the back office. But now, almost 50% of digital investments are on the front end, customer-facing, with a lot of focus on safe technologies.

Q: Where do you think premiums are headed? Where will they finally settle?

A: I expect premiums to actually go up a little bit. We've seen a lot of COVID-19 deaths come up here; we are seeing a lot of fraud come up during COVID-19, which is difficult to track.

But overall, if you look at the entire way it's moved, it's going to be far cheaper to buy in India as compared to a market like Singapore.

3. Transformation agenda for the life insurance industry in the post-COVID-19 scenario

The course of the pandemic and its aftermath will transform the industry landscape in a way that will affect all existing players. Those who do not take note and adapt will find themselves falling behind.

Life insurance thrives and creates financial value when customers and insurers stay invested in the relationship over the long term. It is essential to keep customers' best interests in mind, understand their needs, and analyze drivers of their purchase decisions. Companies need to become a lot more mindful about this in the wake of COVID-19.

In the post-COVID-19 world, digital services will not be treated as add-on services and will instead become a hygiene criterion in selecting policies. Companies will no longer be able to attract customers just by providing top-of-the-line digital services. Instead, they will need to adopt e-KYC and a robust cloud infrastructure for the entire stack of services as a bare minimum in meeting customer needs. Digitization will not only improve service quality but will also make operations leaner and cost-optimal.

Artificial intelligence (AI) and machine learning (ML) can be used to detect and predict customer behavior and then to take proactive steps to improve pivotal business metrics such as persistency. With most life insurance businesses existing at the point of parity with the rest of the industry, it is imperative to use AI/ML and other advanced analytics tools to differentiate a company's offerings from those of other players.

The industry needs to move from one-size-fits-all, off-the-shelf insurance policies to hyper-customized products that delight customers. Product innovation such as telco insurance can also expand adoption of insurance by the under-insured and under-banked segments of customers. New AUM deployment models such as private equity investments by insurers can help increase returns for customers and improve sales.

In line with these imperatives, we have identified five key initiatives life insurance players should pursue to thrive in the post-COVID-19 scenario:

1. **Product innovation.** Insurance has long functioned as a legacy industry with limited innovation. With new upstarts threatening disruption by offering innovative schemes such as differentiated policies and greater customer data tracking, incumbents need to quickly adopt and mainstream innovative products.

2. **Digital investments across the value chain.** For a long time, the industry was slow in transitioning to a digital services environment. COVID-19 accelerated this transition, and companies were forced to think of digitizing their entire value chains. Going forward, companies must invest in top-of-the-line digital service while leveraging cutting-edge tools such as AI/ML and blockchain.

3. **Agile teams and dynamic work processes.** Given the speed of innovation and change going forward, insurers need to redesign work processes in line with a dynamic and constantly changing landscape. Agile cross-functional teams with a focused objective are essential, and will help achieve goals faster by overcoming the inflexibility of a hierarchical organizational structure.

4. **Reskilling of staff.** Insurance agents and other insurance industry staff have long worked on a face-to-face physical model, where they interact with potential customers before closing deals. They now need to be retrained on how to navigate and close sales in a 100% digital environment, without any in-person customer interactions. Similarly, analytical and actuarial teams should be taught to incorporate new and unconventional sources of data into their assessments to come up with better risk models and improve predictive power.

5. **Complementary and value-added services through partnerships.** Insurers should create their own networks of partners to offer complementary and value-added services that differentiate them from other companies. These would be hospital tie-ups, online consultations, pharmacy discounts, and telehealth services, among others.

About the authors

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Barnik Chitran Maitra is the Managing Partner of Arthur D. Little, India & South Asia. He counsels CEOs of Fortune 500 companies, principal investors and government leaders on strategy, innovation, and supply chain operations. All of his work is informed by his experience in helping leading Indian companies globalize their businesses and advising governments on technology and job creation He is also a technology expert, Silicon Valley investor, start-up & non-profit Board member, bestselling author (Reimagining India: Unlocking the potential of Asia's next superpower, published by Simon & Schuster in 2014) and a renowned speaker.

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With over 25 years of experience in Consulting and KPO Services, Ashish is a prominent business leader who coined the term "Knowledge Process Outsourcing". He is the founder & CEO of Benori Knowledge, a global research and analytics firm. He is also the founder and trustee of Ashoka University and Plaksha University. Ashish was the co-founder, former COO and Global Business Unit Head of Financial Services of Evalueserve and helped grow the company strength to 3,500+ employees.

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Madhurima is a business leader responsible for Benori's client and business development initiatives. She has over 15 years of diverse and progressive experience in Consumer Insights, Strategy, Consulting and Market Intelligence projects spanning around setting up/managing large, complex, multi-country global engagements. Prior to Benori, she led the Market Intelligence and Consumer Insights practice in the financial services BU at Evalueserve.

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A bright future for life insurance in a post-pandemic world

Arthur D. Little

Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organizations.

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