

## DOES INSURTECH ENHANCE THE INDIAN INSURANCE SECTOR?

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## ABSTRACT

The insurance industry worldwide is witnessing an upsurge of technological upgrades in its products and operations, particularly in those segments where the FinTech environment has grown significantly. India is attention-grabbing from InsurTech's point of view because of the size of its underinsured population. In accordance to the economic survey of India, the insurance penetration rate in India increased from 2.71% (2001) to 3.49% in 2016-17 indicating an optimistic future. Despite the fact that payments and lending start-ups have been the most sweltering through the span of the FinTech rebellion as far as the number of organizations that raised assets, InsurTech as a segment is certain to pick up the consideration of insurance pioneers in the coming years. Thus, the paper tries to revolve around the concept of bringing in insurtech, the opportunities and the benefits that can be derived from InsurTech by the country.

**Keywords:** Fintech, Insurtech, Insurance, Technology

## INTRODUCTION

The pace of Indian Financial sector is carved out to be the most powerful and vibrant around the globe, with FinTech driving the huge explosion in the banking industry of the country. In contrast, InsurTech has been creating inroads more subtly into the insurance sector. Until now, Insurance Companies have moved towards InsurTech-driven development prudently, more from an experimental point of view rather than considering it as an organizational primacy.

Nonetheless, there will be more noteworthy reliance on InsurTech from insurance agencies as it start to exhibit greater and better value-add to insurers, regardless of whether through reduction in cost, enhancing efficiency in the process or being flexible by adopting necessary changes according to the customers' needs and expectations. The revolution of e-commerce has created a new generation of customers demanding better, quicker and more technologically significant services. (Bedekar, October 2017)

Thus, innovative products and services are being developed in order to meet the needs of an increasing and changing customer base. Costs began to diminish as creative approaches of operating the business developed and rising technologies like artificial intelligence (AI), Internet of Things (IoT); streamline back office activities as well as furnish clients with an improved and a better experience which led InsurTech to take over in reforming the insurance industry. (PWC, 2017)

## EVOLUTION OF INDIAN INSURANCE SECTOR

A well-built and evolved insurance sector is a boon for economic development as it offers long-term funds for infrastructure development as well as strengthens the risk taking ability of the country. The nationalization of all life insurance companies to form the LIC (Life Insurance Corporation) took place in the year 1956 to upsurge penetration and shield policyholders against mismanagement. In 1972, the non-life insurance business were nationalized to form GIC (General Insurance Corporation). Subsequently, the recommendations of Malhotra Committee made the insurance sector to open up to the private players. In 1999, IRDA, LIC and GIC Acts were passed constituting IRDA as an autonomous and statutory body to regulate the growth and development of insurance business.

The insurance industry recorded a substantial growth after liberalization. In 2012, there was an increase of 44 number of private players. By innovating creative product line, active distribution channels, targeted advertising and promotional campaigns by the insurers drove the insurance business. The Government's approval in increasing the FDI limit in insurance sector from 26 per cent to 49 per cent in December 2014 likely attracted the investment of US\$ 7-8billion. Further, Government introduced Pradhan Mantri Suraksha Bima Yojana and Pradhan Mantri Jeevan Jyoti Bima Yojana, Atal Pension Yojana and Health Insurance in 2015 that paved the way for significant development in Insurance Sector. According to the Union Budget of 2016-17, new Health Insurance Scheme under the National Health Protection Scheme was presented. Also, under Pradhan Mantri Fasal Bima Yojana the government raised the coverage from 30 percent to 40percent.

Currently, there are 24 life insurance companies and 31 general insurance companies including the Agriculture Insurance Corporation of India and ECGC (Export Credit

Guarantee Corporation of India Limited) functioning in the country. The insurance sector is a gigantic one and is growing at an expedient rate of 15-20%. Together with banking services, insurance services contribute around 7% to the nation's GDP. Now, the insurance sector is open to adoption of technology in creating innovation in the products and services termed as "InsurTech"

Source : [www.irdai.com](http://www.irdai.com)

## **INSURTECH – AN OVERVIEW**

InsureTech is starting to grab hold of the typical method of conducting insurance business, adjusting it in ways previously undreamed-of. This opens up doors for organizations to become more productive, effective and profitable with the intersection of insurance and Technology – creating an exciting movement in the sector. (InsureTech: Technological Disruption within a Traditional Industry, n.d.)

InsurTech refers to the utilization of technological innovations and advancements intended to pool savings and improve proficiency of the present insurance sector. It is inspired from the FinTech sub-segment addressing prevailing insurance opportunities and challenges. InsurTech companies are driven by the belief that the insurance sector is ready for such opportunities and challenges and also to add on advancement and innovaton to the insurance products and services. (E.U. Bun, M.A. Sopot) It is a market made by investors who trust the time is appropriate for innovation to take place that has its own financial impacts in the insurance industry. Similar to fintechs, insurtechs target specific value pools in the segment, instead of rendering end-to-end solutions. (Jaffer, July 2018)

Technology and Customer experience often go hand-in-hand since the traditional method of insurance process is tedious, resource driven, and involves extensive paper work from purchase of policy to raise of claim. These concerns are addressed by technology make the customer experience extremely smooth and hassle free. Technological Innovations in InsurTech roll in from various sources, for instance, the tech companies, media, the manufacturers and distributors of insurance products and service, and from the consumers as well. Consumers indeed are more comfortable and prefer to deal with non-traditional financial service providers which shows a positive sign for InsurTech in India. Moreover, the younger generation of India is constantly connected with the internet and looks for service providers through it. On the other hand, Insurers are continually hoping to enhance customer commitment, and Information Technology providing the correct channel. Thus, insurers

seeks to be more flexible to the rapid changing environment concerning technology, pervading maximum activities of the product life-cycle in insurance. (InsurTechWorkingGroup Findings&Recommendations)

## **CHALLENGES FACED BY THE INSURANCE INDUSTRY IN ADOPTING TO INSURTECH IN INDIA**

In India, Insurance sector is relatively slow in adopting to innovation, however with rising customer desires, demands and expanded access to technology enabled financial products, insurers are hoping to integrate solutions that enhance maintenance, develop the comprehensive customer life-cycle and consumer commitment. The main hindrance for India in accepting insurtech is the complexity of regulations prevailing in the insurance industry. Due to the high compliance costs and risks, new insurance players must be able to guarantee risk coverage with substantial resources. This is becoming an obstacle for the startups that work with limited funds. This gives a boost and requires cooperation between insurtech companies and insurance companies to offer more customer-oriented solutions. (Fintech Trends Report 2017)

The Indian insurance sector mainly struggle with a series of problems related to macroeconomic factors and structural changes inherent in the sector. The current challenges that the industry is overcoming are: Firstly, the lack of customer awareness has prompted solid rivalry from banks, consultants, investors and different financial specialists that create higher returns in the shorter term. In addition, intermediaries are concentrating on returndriven deals and price, and not in the promotion of financial inclusion; secondly, agents hold a predominant position in the distribution of insurance products and services with customers demanding a personal touch. However, lower accessibility to stable job opportunities and commissions have an adverse effect on channel profitability; thirdly, heavy cost and capital formation is required in order to gain market share and diversify its reach. Fourthly, general insurance face high cost of increasing litigation, fraud investigation and delay in settlement of claims resulting in customer dissatisfaction limiting the adoption of technology in insurance. (EY)

## **WHY INSURTECH IN INDIA – THE OPPORTUNITY**

India has a fascinating market that has made remarkable progresses over the past few years in advancement of technology and product innovation in the financial services sector, predominantly concentrating on financial inclusion targeting the entire population. When it comes to financial inclusion, one of the major focus to tackle citizens of India had to do with payments where initiatives such as Aadhar card, Demonitization and Digital India movement pushing the country forward towards adoption of technology. In addition to payments, Insurance in India has likewise been making progress in both product innovation and growth in penetration rate. (Goldstein, 2018) Traditional Insurance involves excessive paperwork, offering products that customers think they won't need, and its target customer has a level of question about whether claims would be settled on time. Thus, insurtech start-ups are endeavouring to create products to attract this generation. Insurance tech start-ups are mainly concentrating on two characteristics — accelerating the process of purchasing insurance and break down of insurance policies into more particular portions that appeal to the young generation. (Parab, 2018)

Despite the presence of a vast underserved populace, InsurTech is experiencing a moderate begin in India. Unlike FinTech segments like alternative lending and payments, the InsurTech segment has

been developing more in a conservative manner. Yet, InsurTech companies show more noteworthy incentive to insurers by increase in sales, reduction in cost, better management of risk and efficiency in the process, the extension for growth is very high. At present, there is an aggregate funding of USD 87 million with Insurance aggregators being the most funded companies of this segment. Thus, Insurance companies are not considering this segment as an innovation milestone but moving towards an experimental approach. However in the Indian scenario, InsurTech would be integrated into the conventional value chain of insurance if it evidences a profitable value addition to the insurers whether through efficiency of the process, enhanced customer procurement or through lessened cost. Also, the Internet of Things (IOT) -compatible solutions are becoming popular in the InsurTech industry globally, drove by the large amount of customer data collected through a variety of sensors used for other purposes. For example, linking health and wellness data can help insurers better predict consumer behavior and generate more revenue through keener pricing strategies. Markets also offer greater transparency of the product range and encourage insurers to simplify and understand the products. (Fintech Trends Report 2017)

According to the Report by Statista, the forecasted market size for Insurtech industry globally by type of improvement in 2016 and 2020. The available global market size for claims processing improvements in 2016 was 44.09 billion US dollars and is estimated to be 72.53 billion U.S. dollars in 2020. The available market size available for underwriting improvement in 2016 was 110.18 billion US dollars and estimated underwriting improvements is 175.44 US dollars in 2020. Therefore, this indicates to remain optimistic in the future of InsurTech in India as this would result in higher penetration of insurance products and services as well as meeting customer expectations and customer satisfaction.

## CONCLUSION

InsurTech has a bright future with regard to the growth of insurance sector, penetration rate and also attracting the customers in choosing this platform as a long-term investment tool. However, the disruptive power of InsurTech is yet to be witnessed in India, but by studying the market trends in which InsurTech has left its mark, it can be concluded that start-ups must work closely with insurers to provide real benefits to the consumers. Thus, there is a greater possibility of Insurtech enhancing the Indian Insurance Business.

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