PRODUCT DOES NOT MATTER, SERVICE DOES

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While insurance is a price competitive arena, trust and customer service play huge roles in attracting and retaining customers. Excellent customer service is the key to gaining new customers and customer retention. Recognizing their inability to develop truly proprietary products in the fast-moving global environment, many Insurers are migrating towards the supply of services to generate growth. This is a shortsighted strategy. "Services" are knowledge intensive and typically local. This type of business is usually subject to intense local competition and cannot easily be scaled up for consistent revenue growth and profit margins. India has a vast potential that is waiting to be tapped and this could be achieved when sufficient competition is generated and it is exposed to the developments in the rest of the world. The insurance sector was, therefore, opened up for private sector participation with provision for limited foreign equity exposure. We have now seven years experience of the public and private sector operating together in the market.

Insurers are attempting growth through systems integration and services must recognize that their services offerings put them into direct competition with some of their best customers – the local systems integrators. It is true that the manufacturer has the advantage of additional margins and proprietary product applications knowledge – but the integrator has the advantage of being local and can often defect to competitors' products. With aging technology, many products are becoming commodities - available from several sources with marginally different features and benefits. At this stage, the lowest cost producer usually wins. In a global market, requirements change quickly, margins shrink and remotely based suppliers lose market-share. Today, lots of products have melted away through rapid and widespread dissemination of the information in the global arena. Practical knowledge that produces need based quality products at low cost has now become a commodity - everyone knows how to do it. In many cases, the western world chased cheap products in the Far East and educated the locals with their knowledge as part of the project - shortsightedly frittering away the value.

ASSURANCE Vs INSURANCE:

The Concise Oxford Dictionary brings out the subtle difference between the two terms. Assurance refers to those insurance policies which guarantee payment on death of the person whose life is insured or on expiry of the prescribed period, whereas insurance refers to those policies where payment would be made only in the prescribed circumstances - death or accident happening within a specified period. Both Life and General insurance segments are regulated by the IRDA. While the life insurance has nothing to do with Tariffs, general insurance market was dominated by tariffs. January 1, 2008 heralded the long-awaited de-tariffed or free-pricing regime, lifting pricing restrictions in the motor and fire & engineering segments that form about 70% of the general insurance business in India. De-tariffing is the biggest Inflexion point for the industry since liberalization. The move comes in the wake of partial pricing flexibility introduced in January last year, and will culminate in the impending product-wording flexibility from April 2008. Tariffs have long compelled general insurance companies to operate under a fixed price band and to stick to policy wordings set by Insurance Regulatory and Development Authority. Further, they didn't have the liberty to offer incentives to the insured to get covered for specific risks, or to downplay coverage in areas where there is scope to remain self-insured.

A SLEW OF CHANGES:

Now, with the opening up of the market, a slew of changes are in the offing: reduced premium prices, increased product customization, focus on risk-based pricing and improved customer services. With the cap on pricing gone, de-tariffing will bolster innovation and creativity among insurers. Differential pricing is, however, subject to IRDA approval to protect the policy holder's interests. Players are likely to focus on risk-based pricing, which will help insurers make a proper assessment of the risks to which a client is exposed, and tailor the product to cover those risks — at a price compatible with such risks. This will entail substantial investment in risk advisory and risk management tools, technology and systems, and client. So far, players focused on distribution reach, developing products and investing in technology, operations and processes; the game will now shift to product differentiation, segmentation, superior customer service and building brand image. Low margins in the corporate sector have forced insurers to turn their attention to the retail space. And de-tariffing will accelerate this shift in focus. The impact will be more pronounced in the motor segment, which currently accounts for 45% of general insurance premiums, as motor insurance is mandatory for all vehicle owners and there's a greater awareness here compared to fire & engineering.

PSU'S Vs. PRIVATE:

Which product should one choose for quick issuance, less cumbersome documentation, the plans offered and claim settlement? The competition is between four government-owned companies, and all private players. PSUs suffer mainly on account of issuance and settlement of claims. PSUs even have more or less standard plans. Like in health products, while they cover only accident and sickness expenses, hospitalization, emergency (medical) evacuation, repatriation of remains and baggage loss, the private players also cover the baggage delay, loss of passport, flight delays etc. If there is a delay in take-off by more than 12 hours, one is given US $ 10 for meals. The premium for a private insurance policy is Rs.5 or Rs.10 more than a PSU policy, but the add-ons and the value for money is incomparable. New, aggressive players might use price as a means to grab market share. Industry players point out that this is a common phenomenon witnessed in several countries that moved to free market pricing. China, for instance, saw a great deal of blood-letting for two years. However, prices are expected to move to realistic levels after companies factor in the claim and servicing costs. As the industry matures, customers will learn to pay for the risks they get covered for, and for advice and services. Once IRDA allows companies to rejig terms and conditions of policies, segmentation will increase. Companies may offer specialized services to cater to high net worth individuals/high-premium customers, and even track customer profiles on a one-to-one basis. Niche insurance firms are likely to enter the market.

A WIN-WIN SITUATION:

It's a win-win situation for customers. They are in for better bargain as they'll need to pay only for the risks applicable to them. For example, in motor insurance, premiums will vary depending on driving, usage and maintenance records. Insurance is a cyclical industry that functions on demand and supply dynamics, and it will take anywhere from three to eight years for the industry to stabilize. Margins and premiums may take a big hit in motor and fire & engineering in the immediate future. The entry of new players will exert a further downward price pressure. Companies are looking at alternative channels like 'direct to customer', the internet and mobiles to reduce operational costs and acquire pan India presence. The introduction of any product or scheme involves a lot of research work and market feasibility studies. Before designing the product, an insurer has to make a comprehensive study of international benefits and the various models that are used in insurance markets worldwide. In India, they conduct a study of the consumers' perception of a product and their expectations, the barriers to adoption and options in distribution. Insurers then come up with critical factors which may ensure the success of new scheme.

DISTRIBUTION PRACTICES:

Intermediaries continue to play a pivotal role in distribution for their access to a larger number of individual and corporate customers. The need for training, recruitment and professionalism has become greater, though, brokers need to help customers sift through the maze of policies. Not many brokers today fully understand the different businesses or their clients' needs. Many brokers have a 'chalta hai' attitude because rates were more or less fixed or standardized; now they need to show their competence in specialized services to attract customers. Simple products, on the other hand, may be sold over the counter. In the UK, 60% of the motor insurance business is done over the internet and phone. Internet sales will have a limited role due to connectivity issues. Distribution costs need to be one-tenth of urban levels. General insurance companies are expected to play the volume game and expand their base geographically to spread risks. As a result, rural forays — through NGOs, co-operative banks and government sponsored programmes — will get a fillip. The challenge in rural areas will be establishing a cost effective distribution mechanism while maintaining service levels. As the focus shifts to 'direct to customer' marketing, branding will play a greater role.

SERVICE LEVEL-THE BENCHMARK:

In the de-tariffed market service levels has become the benchmark for brand building and brand recall. Only those insurers with a strong brand will survive. Customers will have more room to negotiate for the best price and they will gravitate towards companies with strong brands. There are 18 general insurance companies right now, with few more slated to enter the market this year. While general insurance ad spends are only about 20% that of their life insurance counterparts, it is believed that this gap will come down significantly. And given the number of consumer touch-points involved distributors, sales people, call centre executives — from pre-sales to post-sales to claims to renewals, investments in service standards are bound to multiply as well. Each interaction or experience has the potential to build or destroy the brand.

INSURANCE INTERMEDIATION:

In addition to the growth of insurance market the other area where there is significant beneficial change with the entry of private insurance companies is the area of insurance intermediation. Till two years ago, the only mode of distribution of insurance products was the agent. The industry have today alternate channels like bancassurance, brokers, corporate agents and direct marketing through internet. Though it is too early to predict, bancassurance has the potential to emerge as a significant distribution mechanism. Banks have not only data from which they can identify potential clients, but have also extensive reach and provide a point of contact for the insured. The Bank branch unlike an agent cannot be elusive after the sale of the product and has to respond to the needs of the insured. If there is proper disclosure at the time of sale of policy and efficient post sale service, there will be significant increase in the use of this model by the insurers to enlarge their business. The insurance broker offers the most efficient distribution system through which clients purchase commercial insurance. As the non-life insurance market opens gradually, the value of the insurance broker's role will be better understood. There are increasing opportunities to serve the needs of midsize companies and small enterprises by delivering the specific services these clients need and in the way they want them delivered. In spite of the proliferation of the intermediary channels, the traditional agent continues to play a dominant role in the sale of insurance policies.

CUSTOMER BASED INDUSTRY:

While insurance is a price competitive arena, trust and customer service play huge roles in attracting and retaining customers. Learn more about best practices, customer service approaches in car, house, and business insurance. Although the technology is still in its early stages, more insurance agents and brokers are beginning to embrace the concept of online customer self-service. Like their counterparts in the banking and securities worlds, insurance agents and brokers are beginning to offer customers the convenience of accessing their accounts online. By doing so, policyholders can gain access to their personal information and insurance coverage, request changes to policies and download certificates of insurance-all at the click of a mouse. With his unwavering focus on ways in which technology can improve the relationship between customers and insurers, there is a new breed of insurance industry Chiefs - one who strives to lead the company from a product and line-of-business-centric orientation to a customer-centric paradigm.

BUSINESS SOLUTIONS:

The detariffed regime has begun in the insurance sector. There is a complete change in the pricing pattern of insurance products in the new regime. Insurance products shall henceforth be priced depending on the risk profile, claims history and the place of operation. Hence, premium amounts vary from one person to another and also depending on the topography. Of course, insurers have reduced rates on portfolios such as fire and householder's policies where the claim ratio is less. Sometimes, software products billed as "business solutions" really end up being part of the problem rather than part of the solution. Steep learning curves for complex software, along with changes in process, can generate resistance in the very workers who are supposed to benefit from the solutions. Well-focused software products, however, really do solve business problems and are welcomed by users. In the insurance industry, that translates into better customer service. Many people deal with customers within their own companies. Internal customers are those people and employees who might use your services and products, who reside in the same company. For example the computer department and human resources department serve internal needs.

CUSTOMER RELATIONSHIP MANAGEMENT:

Now CRM technology can help improve customer service and customer contact. Communication with customers and marketing often overlap since the same strategies for communicating effectively with customers also result in good marketing. Here you'll find material to help you use information about your customers to communicate effectively. More companies are moving towards supplying self-service to customers to replace face-to-face-contact. Call centers are often under-staffed and employees are over-worked. Now it has become important to improve customer service within the call center environments.

ULTIMATE CUSTOMER SERVICE:

The new generation companies claim to grow by customer service, and by tuning up technology, training staff, and tackling existing markets. Private players are picking up market share from competitors. Most companies have information technology (IT) departments that are critical to the success of the business. They provide services primarily to internal customers. Find information here about how IT and IT employees can improve the service they provide to customers. The insurance industry has witnessed increased convergence and consolidation. Differentiation is difficult as products and services are becoming commoditized. With technology emerging as the key enabler and customer expectations increasing, the insurance sector has to rethink the way services are configured and delivered. The nature of the industry demands that records and transactions span a long period. This underscores the need for process efficiencies. Insurers also need to address diverse regulatory requirements and corporate governance demands driven by mandates such as the Insurance Act, 1938.

DEMOGRAPHIC CHANGES:

Indian insurance industry is witnessing a demographic change in the country and the younger generation which is exposed to the outside world demands products and services which are at par with what is available in the advanced countries. This is the biggest challenge. Indian insurance companies can face this challenge and provide services on par with services provided in the advanced countries. The regulatory regime is happy to facilitate this process whenever its intervention is required.

In addition to the growth of insurance market the other area where there is significant beneficial change with the entry of the private insurance companies is in the area of insurance intermediation. If there is proper disclosure at the time of sale of policy and efficient post sale service, there will be significant increase in the use of intermediaries by the insurers to enlarge their business. The new insurance shopping websites act as online brokers and help in access and compare deals offered by various companies, and then pick the one best suited to customers Normal brokers, too, serve the same purpose, but their operations are largely restricted to high volumes and, hence, their main clients are corporate houses and big organizations.

Any insurer may have a long-standing dream to design a product that truly is an end-to-end cover for the customer with the promise of low cost coverage. Why provide treatment to people only when they are sick? Why not promise them a healthy life instead? It may take some time to bring up in its current state and to make sure it provides advantage to every stake holder. Insurance companies today are confronted with many challenges: increasing losses partly due to higher costs for claims processing; lower investment revenues due to weak equity markets; and impending loss of market share for organizations where insurance is not the core business, such as the automotive industry. The claim settlement in PSU companies does take a very long time due to red tape, but private companies have streamlined the process. In the detariffed regime, general insurance companies have been allowed to fix their own prices for products offered by them. Competition among insurers has led to falling prices. But, to zero down on the cheapest deal, one needs to know about other deals too. People want to cover their family, but don't have the time to run after the agents of various companies to decide on a product? Internet's the way to go for the right selection. With policies and products available online, the cheapest deal could be just a click away. Buying insurance online makes the task easier. For those looking for general insurance products, such as health, home, travel or car insurance, the online version can be a boon in the detariffed regime. Even pension plans provided by life insurers that come without any life cover are ideal online plans to buy.

Increasing revenue is especially possible by selling more policies and selling at lower risks. Insurance companies have to identify the right customer segments (high potential, low risk) and to address the right products. This also means reducing time-to-market for new products. At present, most people buy insurance products through an individual agent or a bank. However, these entities normally deal with products of only one company. So, you may not get the right deal at the right price from them. It may be too early to say that corporates are jostling for space in the health insurance market but they are definitely trying hard to create a niche here. Those taking lead are the life insurance companies and banks. Take the myriad offers in health that have sprung up in the last few months— HDFC's Health Plus International credit card, LIC's critical care rider and Tata AIG's insurance called Health First. Even ICICI Prudential, Bajaj Allianz has come up with their health products. Their target is to increase revenue and achieve greater profitability while lowering process costs and still attracting more customers to the organization. To achieve this, insurance companies need to develop new sales channels and offer innovative products. Also, proactive improvements in service and claims management are in great demand.