

Outlook for the year - Insurance sector in India

January 2022

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(4 min read)

Key takeaways:

- *For structural consolidation, an impending IPO of India's largest insurer, capital markets activity and increased FDI would drive the course that the insurance industry takes*
- *At a business level, customer centricity, advent of online, increased adoption of big data and payments digitalisation will be key contributors to the growth story*

Introduction

The Indian insurance sector has historically witnessed growth between 12 and 15 per cent over a five-to-six-year time horizon¹. This growth has primarily been driven by the inherent under-penetration of the sector (3.76 per cent in India against 9 per cent and above² in developed countries like Japan, the U.K. and the U.S.) as well as concerted efforts by the industry and the Insurance Regulatory and Development Authority of India (IRDAI) to increase awareness and adoption.

In equal measures, the insurance sector has witnessed disruption in recent times due to extraneous factors as well as evolution of the industry itself. Extraneous factors include the recent pandemic as well as advancements in the larger financial services space, including increased focus on digitalisation, better formalisation of the economy, disruption in payments, etc. The industry has also evolved, driven by the advent of insure-techs, sandbox framework by the regulator, rise of ecosystems, embedded products, greater focus on digital transformation and big data.

Going forward, a similar set of themes would continue to propel growth. From a structural perspective, an enabling environment created by an increase in the foreign direct investment (FDI) cap, valuations being commanded by insurance companies, capital markets activities and rising awareness, especially about health and life insurance, would drive growth. From an operational perspective, increasing affinity of consumers to interact digitally, remote underwriting, contactless processing, video on-boarding and other similar themes will propel the insurance industry forward.

Themes that will drive the sector:

Industry structure and capital markets

- **Consolidation** – The market structure of the insurance sector indicates that the top four or five players control a key portion of the market while there is a significantly longer tail. This has led several consolidation activities in the industry over the last year or two. This trend is expected to continue with market leaders keenly assessing players with niche capabilities or market presence in

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geographies which would add value to their larger portfolio.

- **Capital markets activity** – The impending IPO of India's largest insurer is expected to be a game changer for the Indian insurance industry in many ways owing to the issue size as well as policyholders being given the option to subscribe. The IPO would, in many ways, drive the way the market values the sector as well as potential future listings of insurance companies. The value of existing public companies has increased significantly since they were listed, driven by product innovations, digitalisation, focus on ecosystems and adherence to corporate governance standards. They are expected to continue along the same trends.

Business

- **Customer centricity** – Customer experience, journey simplification and product modularisation will be key themes adopted by insurance companies. Insurers will look at providing a seamless omnichannel experience to customers leveraging technology while ensuring simplification of product constructs to drive penetration.
- **Sachet products and ecosystems** – Ecosystems as a strategy has been gaining traction, both in the life insurance and non-life insurance spaces. Tie-ups with internet ecosystems, such as e-commerce, health-tech, logistics, etc., may bring further traction, going forward. Insurance companies will be assessing these ecosystems for embedding their products, which would typically follow a simplified construct and would be issued as well as serviced in a seamless manner, as a part of the larger ecosystem of offerings. Products such as on-demand insurance, event-based insurance, covers for purchases, etc. would gain prominence.
- **Digital commerce** – [Digital commerce](#) would witness increased adoption by insurers in both the life and non-life segments and would complement the sachet products and ecosystem strategy. Usage of digital marketing channels to acquire as well as engage with customers would be a key trend going forward. Market leaders and digital disruptors are already adopting the same in an aggressive manner.
- **Big data** – A key enabler for insurance companies, going forward, would be increased adoption of big data solutions, including cloud computing, artificial intelligence, machine learning, etc. The improved analytical capabilities driven by in-house development or through tie-ups with technology companies will drive data usage, underwriting, claims management, acquisition, renewals as well as fraud management. New age data sources enabled by the Account Aggregator Framework or the National Health Mission as well as the government's push for block chain would result in creation of significant number of use cases, which could be adopted by insurance companies.
- **Payments** – The disruptions in the payments space will also substantially affect the insurance industry in terms of ease of premium payments or settlements. Digital modes of payment and settlement are expected to be adopted increasingly, especially in tier II/III/IV cities.

Capital and governance

- **Risk-based capital and financial reporting** – Adoption of risk-based capital calculation might be in the anvil for insurance companies in the near-to-mid term, and this would have an effect on capital allocation basis the individual risk profile of the insurer. Furthermore, possible adoption of International Financial Reporting Standards (IFRS) 9 and 17 in line with global adoption would lead to greater transparency and consistency in reporting as well as a major change in insurance accounting and other processes.

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Conclusion

While FY21 and part of FY22 was majorly focussed on the pandemic, the Indian insurance industry is expected to focus more on the growth story going forward. Increased awareness levels, enabling digitalised payments infrastructure, advent of ecosystems, big data, journey simplification and overall digital enablement will be some broad items which will drive the growth story. The broader themes will be around consolidation, possible increased foreign capital, capital market activity, ecosystems, technology and big data as well as solvency and reporting. The insurance industry is expected to grow at approximately 15 per cent in a three-to-five-year horizon³ while rapidly adopting digital and big data.

¹ Source: IRDAI Databook, accessed on 16 December 2021

² Source: IRDAI Databook, accessed on 16 December 2021

³ Source: KPMG in India estimates