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Achieving High Performance in Insurance

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Vivek Law

National Editor, CNBC-TV18

Welcome to this very special Insurance Summit that accenture and CNBC TV 18 have put together. It gives me great amount of pleasure to be sharing the stage with a panel of this kind. Insurance is been a subject that I have been tracking for many many years. But it is always extremely interesting to find out what next is going to happen in this sector. It has been so dynamic; it has been changing so rapidly, especially in the last 8-9 years since it was thrown open to the private sector. And, just when you think one particular trend is over then comes another one. And, I'm sure this acceleration in terms of not necessarily premium numbers, but in terms of the kind of things that this sector is doing, the kind of product innovation that it is going through, the most important part – the penetration levels. My own view is that, most of these penetration level numbers are completely wrong, that's because, yes, while on the one hand we do have a sense of people who have bought an insurance policy and therefore in the statistics they come in the penetration, the numbers, denote that just because you got a policy you come under the penetration figure, but the fact of the matter is, if you actually see the adequate insurance bit, I think all these numbers that our government puts out, our regulators put out are pretty redundant. Because, the level of adequate insurance that we would account and that is really what is relevant. There is no point having a 10,000 rupee premium pension policy, thanks to tax benefits. And be looked at as a person who has taken care of as far as his pension is concerned and that pension is going to be just 3,000 rupees, 30 years down the line per month which is going to be pretty meaningless. These are the kind of numbers that we hear, so well, while on the one hand the numbers don't tell the correct story, on the other hand my own sense is that the opportunity that is available to this sector, irrespective of the way in which the economy moves, the markets move, is just one way, and that is up. These are trying times as you all know very well for every sector perhaps, both globally and also in India. But perhaps for the first time in a decade of the private insurance industry of having been here in India, we are seeing some kind of a slowdown there as well. And I thought it is important that we try and understand what's really going on in this sector at this point in time. And of course we have got our first guest I'd like to introduce you to is, Pierre, who is the Group Chief Executive of Accenture Financial Services worldwide. Thank you

very much for joining us today. And it's going to be extremely interesting to get a sense of how the global insurance industry works and that's going to be some very important takeaways for all of us here today. Ajay Srinivasan, who has been one of India's best known fund managers, he was in Asia, before he returned back to India managing one of the biggest Asian funds, he has come back to India and in his new assignment as Chief Executive of the Aditya Birla Group's Financial Services, he is also looking at the entire insurance base, thanks Ajay for joining us like always. Shika Sharma, I don't think needs any introduction she perhaps has in many ways been the face of this industry. Been there for 9 years since the life insurance sector got deregulated here in India. And has been driving ICICI prudential Life Insurance ever since then. Thanks very much Shika. There is Sanjay, who represents Accenture, heads the Financial Services practice here in India, thank you very much Sanjay, and we will try and get your sense of what you are doing with insurance companies here in India. There's Gaurav Garg who represents a general Insurance company, he is the COO and Managing Director of Tata AIG General Insurance.

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Ok, Shika let me start with you. First time you are a little worried about growth

Shikha Sharma,
Managing Director and CEO,
ICICI Prudential Life Insurance Co. Ltd.

Ya, the growth this year has surprised I guess all of us. Given the fact that the industry has seen some dramatic growth ever since it was liberalized, specially, the last three years when we saw growth rates of 35%, 100%, 31%, 3 years in succession. Frankly, our view at the beginning of this planning year was that the industry would see some kind of a slow down relative to the growth rates that we have seen in the last 3 years. It is a large industry and for it to continue to grow that way would have been tough. But, the entire global financial crisis, coupled with you know, therefore the impact that it had in India, capital markets, equity markets. What you talked about the fact that it is a dominantly unit linked market. All of that has meant that, it is in that process of a slowdown, the industry has actually seen negative growth, for the first time since the sector opened up. And saying for the insurance industry the correction happened is sharp and it's all happened in this year. So, if we look at different sectors of the economy and how they have responded in this year,

it has been a tough year for most sectors. Insurance has, I think, taken much of the hit this year. And therefore I expect that should give the positive strength that will start from the next year itself.

Vivek Law

Just about giving it a year

Shikha Sharma

I think this year was a year of adjustment and we do expect.

Vivek Law

What is the strength you adjusted

Shikha Sharma

The industry is degrown at minus 6%

Vivek Law

So, as a company how have you adjusted

Shikha Sharma

We have also seen negative growth, but slightly better than the industry because we are still one of the smaller companies

Vivek Law

How are you countering, what have you done, have you got back to the drawing board, is there a different approach that you are adopting at this point of time?

Shikha Sharma

As I mentioned, we have actually planned for lower growth at the beginning of the year. So at this year itself when we started out we had focused on the fact that, three years of hyper growth, can we get back and focus on productivity, efficiency, which all tends to take a bit of a back seat when you have hyper growth, because the whole focus is on growth and new ventures. So, from the beginning of the year we have focused on, how do we manage expenses, how do we get waste out of the system, how do we cut out redundancies. So, that has been something that we have focused on probably first time significantly as far as a company

Vivek Law

Ajay, you have just barely been back to the country. I don't think you expected this to happen so soon, but, in terms of growth, as I said continues to look optimistic, but, how are you dealing with the current situation.

Ajay Srinivasan

Chief Executive – Financial Services,
AV Birla Group

I think you need to step back and look at the bigger picture it presents in a way. I think especially in the world we live in today there are very few economies you'll find that have seen the kind of growth we have seen today in India, very few economies where you will find the savings rate that we see in India. And, very few economies where you will see that savings going into things like bank deposits which is not really necessarily working hard enough for the investor. So, I think we are working against in an environment that is very conducive for long terms savings and protection products like life insurance and other products. So, I think there is growth for those who are looking for it and I think obviously there is some differential growth in the market based on different positions. But I continue to remain optimistic like you are and like Shika is about the long term. I think this is a market that will continue to grow. I think life Insurance, specially as an industry has done a great job reaching out to consumers, because, with the kind of spread that life insurance companies have built, with the kind of agency forces that the life insurance companies have built, it has been able to get the Indian consumer to start participating in capital markets, which many other instruments don't give you a chance to do.

Vivek Law

We are the biggest mobilizer of retail equity in any case

Ajay Srinivasan

We would be, and you take another point which is, look at the amount of selling that the FII's did through the crisis, if you did not have the life insurance companies standing and buying them

Vivek Law

We would have been 3,000 at the sensex?

Ajay Srinivasan

I don't know, but we would have been close to that

Vivek Law

So are you saying that, you know, when we talk of insurance companies, Shika says, that there is a negative growth which is a fact you know, the numbers tell that. Are you seeing people deferring plans to buy insurance are you seeing them staying out of a ULIP (unit linked insurance plan), but, therefore, buying a guaranteed product or a term cover, which of course in premium terms would reflect a negative growth, because they are not high premium products in that sense.

Ajay Srinivasan

From our perspective actually we've probably started from somewhere slightly different. Here today, in December we going 62% versus the market that's growing 4% or slightly negative, so we are gaining some market share. As far as we are seeing, we are still seeing demand definitely; we are still seeing a broad based demand for a broad based range of products. We've just launched a traditional product, so we are filling out our product range. So, I think, you know, it's really a question of customer needs and how you can fill products that meet those customer needs and I think there is enough opportunity. But more recently, we have seen a greater demand and a greater interest for capital protection, capital guarantee, And that's not unique to India, I think anybody in the capital markets today around the world is looking at how they can protect the downside.

Vivek Law

Gaurav, is the situation as bad in the general insurance side or are you seeing post de-tariffing, some more measures expected from 1st April onwards. Do you see actually, consumers going out and picking up general insurance products?

Gaurav Garg

Managing Editor & CEO TATA AIG
General Insurance Co. Ltd.

Well, on the general insurance side, there are two things that happened in this year. And, the first thing that happened was from 1st of January of 2008, the market went to free pricing. So that it self slowed down the growth a bit. If you see the growth as compared to last year versus this year, there is a significant drop in growth, because of the free pricing regime. And, then of course the events of September overtook the industry and the industry is almost flat now, the last few months, there has been really no growth. The penetration of the general insurance industry in the last 10 years, has just increased 0.1 percent. Ten years back it was 0.5% of the GDP and now it is 0.6%. And to compare it to the other markets which are developing markets, India has one of the lowest penetrations. Indonesia, Malaysia the penetration is much higher. So, you know, I'm very very bullish about this market. Irrespective of what I call this as a knee-jerk slowdown. Which was pretty dramatic, I mean, we were growing...

Vivek Law

What you are saying is that Gaurav, even during the upswing of the last 5 or 6 years, the penetration never increased?

Gaurav Garg

It didn't.

Vivek Law

And what makes you hopeful that when the downturn is over, it will be back?

Gaurav Garg

There is a silver lining to this downturn; people will now look for fresh markets, because the current markets in which everyone is playing is shrinking. So, as the current market is shrinking, the growth is slowing down. But there is a huge market outside, which now players will be forced to access just to maintain their growth rates.

Vivek Law

Sanjay, you have been working with the Indian Insurance sector for a while now and, what is it that you think the insurance sector needs to do at this point in time? We are all tightening belts for instance. Do you see a certain tendency to cut costs? We have repeatedly heard Shika and Ajay in the past comment about the measures that insurance companies are taking to become tighter and leaner organizations. What do you think and what is your prescription?

Sanjay Tugnait

Managing Partner, Financial Services,
Accenture India

Vivek, I think what Shika and some of the other panelists said, you need to do, there are three key things based on the work which we are doing, not only in India but globally, is one is in the current market, the differences between the winners and the losers. The winners are definitely going out and grabbing market share. That's number 1. Number 2 they are looking at profitable growth, so, not just the topline, but actually the bottomline, and managing their capital really really well. The third key thing which we are seeing a lot of insurance companies doing is focus on their employees, the agent workforce, actually, you know saving money somewhere else, investing money in training the agents, so that they become more productive, so its all about revenue generation rather than just pure cost reduction.

Vivek Law

Let me come to you now, finally, one of the biggest costs that people like Ajay and Shika incur is what the distributor takes away from them. In India, it's a very high percentage; it could go up to almost 40% the first year, you know on the ULIP. How does this compare, in terms of, when Sanjay talks about which are the areas you can tighten yourself in, this always seems to be a sword hanging over their head all the time. It is a very difficult proposition because you are so dependent on that entire distribution chain. Globally how do companies do things differently?

Pierre Nanterme,

Group Chief Executive,
Financial Services, Accenture

This is mainly the difference between banking and insurance. It is indeed a distributed channel especially around the agents, or any form of agencies, is on one hand driving more cost, at the other end benefits for the insurers is that it is more valuable, you got valuable cost to work things out. When it is bullish you can hire more people or do the other way around. You have a little bit more of flexibility. Now when you look at this. It is cheaper on the one hand, you have some reasonable compensation around your distributors, because it is all around their motivation, to sell and do the right thing.

Vivek Law

Is it too much of motivation you think? Is that the trend globally?

Pierre Nanterme

Probably the trend globally, I think, much more, to put the emphasis on how you industrialize, to much better manufacturing or how you process the quality, how you develop your products. And how you bring more efficiency. So, this is where we see the bulk of the investments in order to be lean and leading the way, ride your business in order to create more possibility to expand around your sales force, with more hiring and training.

Now 40% is slightly too much, it seems higher than what you can see outside on the planet, indeed, but, I think anyway, in the current environment what's going to be critical for the insurers is to look at the way they are running their operations and their business, the kind of product they can sell, the discipline, the risk management, the compliance and making sure that on the other side they are putting extra investments, maybe not so much in terms of commissions, but it depends whether you are adding hiring

and training, and the quality of the sales force, specially in a country like India or in other countries in Asia, clearly the name of the insurance agent and with you. Big differences between players depending on the quality of the agent.

Vivek Law

That's interesting because it's almost the same thing here in India, we know the three pillars which the Indian Insurance sector is looking at...

How do you tackle this whole cost thing of the distribution side, the point that he made? They are very significant, don't you think so?

Shikha Sharma

I predict two things actually, first yes, I think the growth engines in India are going to be pretty much what Pierre has talked about, pensions and health are going to be big growth engines for the market and at the same time, we as a company remain extremely bullish about the unit linked product, because I think it has, as you mentioned, some key features which are very valuable to the customer in terms of flexibility, transparency, ability to exercise your asset allocation. So, our view is, yes, guaranteed, will work, but as markets change customers will change their asset allocations, so what companies are going to probably end up doing is putting more features into the unit-linked and making it more relevant for downturns as well. You don't go and change your entire product mix, but you change the features of your products to be more relevant in the market. To come back to your question on cost, see ultimately, it looks like 40% is a high cost. First of all I want to clarify that, that is not the cost structure that most ULIP products have, as far as commercials. It is significantly lower.

Vivek Law

How much?

Shikha Sharma

I think in India the first year commissions for a majority of products will be in the low teens.

Vivek Law

Is that so?

Shikha Sharma

At least for us that is the case, there are low teen commissions for unit linked products and it is the case for a lot of other insurance companies as well. Having said that, what we need to remember is that, if you do not pay the agent enough for it to be worthwhile for him to put in that effort, insurance penetration in the

country will go down. Because it is a fact globally, and it is a fact that I have begun to understand only after moving into the insurance sector from banking, that insurance is a product that is sold and not bought. However much the need, I'm sure you Vivek have bought your insurance policy only when somebody came knocked at your door.

Vivek Law

I bought it after talking to you...

Shikha Sharma

So, I have been the persuasive salesperson... Thanks, but, what I'm saying is that most people, don't go and buy their insurance policy, unless somebody comes and explains it. So you have to provide enough incentives for the distributor to make that effort. So the only way which you can actually bring down cost is to focus on what Sanjay talked about and what Pierre talked about, that you increase the productivity of your workforce, you make them more successful in the closures to call ratios, which you do either by having a superior product design, or by having simpler products, or by providing better technology support at the point of sale. So those are the kinds of things that the companies are focusing on right now, when they have a chance to breathe, the growth has slowed down, so you have time.

Vivek Law

Does superior mean simpler or does superior mean more complicated?

Shikha Sharma

Superior products? Could mean a bit of both. I think the second thing that companies need to get done is, these contracts at least as far as Life Insurance is concerned, they are long term contracts. Ten fifteen twenty years. So, a bit of the burden on the distributor is also about servicing that contract in a long term. So, how can we actually make it really easy, for the distributor to service the customer, So you reduce the overheads of servicing for the distributor and you ensure that they have the tools to be more productive at the point of sale. That is what is going to bring the cost down in the long run. If you just drop the commissions without putting that infrastructure in place, all you are going to do is lose the penetration.

Vivek Law

You have been putting that infrastructure for many years now...
You all have training programs...

Shikha Sharma

It's not just about training programs, It's about what sanjay talked about, have you got the technology tools to enable them to get that information at that point. Because the fact of the matter is there are multiplicity of product offerings in the market and it's really tough for an agent to...most of the time it's a part-timer or even a bank assurance staffer, who is selling twenty different products.

Vivek Law

I want you to respond to the point that he made about bank assurance being weak, you do have the biggest private sector bank as your logical partner. Has it really worked in India?

Shikha Sharma

See, 45% of our sales today is non-agency, and I think that it is pretty much true for most of the private sector. A large proportion of private sector sales of insurance is coming from the non-agency sales force. Having said that, I think agency is a key part of life insurance distribution, but alternate channels have gathered a lot of momentum. The issue regarding training

does not go away, because even the bank assurance staffer has a multiplicity of products, has that limited mind space, in which they have to learn. And you have to learn on the fly, so, you have to give them the tools when they need them to be able to sell the product. And this year if you look at what we are focused on... in addition to the whole issue of eliminating waste, we as a company are focusing on how do we build the infrastructure to make all of this happen for the distributor. Because, when the market comes back, we will be in a better position to take advantage of the growth.

Vivek Law

Alright, we have come to the end of this session, thank you very much all of you. Thank you very much, our panelists, for making time to be here. I certainly enjoyed this, I have come back learning a lot more and hope you did too. Thank you very much for joining us this evening.

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