

**Vision 2025:
brokers driving
customer-centric
growth**



Insurance Brokers Association of India



Building a better
working world

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Foreword

The Indian insurance industry is the fifteenth-largest insurance industry in the world with total premium of more than INR400,000 crores. However, penetration and density have remained low, indicating the need to address challenges, which impede growth.

Broking is the only channel, which represents customers and not insurers. The channel registered an impressive CAGR of around 28% in the last five years contributing around 23% of gross direct premium in non-life insurance in FY15, apart from a small presence in life insurance and a significant one in reinsurance. However, the channel is still evolving and needs to meet risk management requirements of customers comprehensively.

The evolving Indian insurance industry and broking channel have potential for significant growth over the next 10 years. To achieve this potential, progressive actions by key stakeholders including insurers, the broking community, and the regulator are need of the day.

With this backdrop, the Insurance Brokers Association of India (IBAI) brings you this report, which is focused on a long-term vision for the broking community to drive customer-centric growth. EY has assisted IBAI in speaking with various stakeholders and putting it together. Central to the report is the voice of customers. We garnered inputs, through surveys and discussions, from more than 200 respondents across customers, brokers, insurers and other stakeholders to listen to the voice of customers. It forms the key link in transitioning from the current state of the insurance industry to the possible future state. The path and speed of this progress will depend on deliberate actions being taken by brokers and their association and supported by positive actions expected from the regulator. The way forward is for brokers to drive customer-centric growth.

We would like to thank the regulator's representatives, insurance and reinsurance industry leaders, broking industry leaders, and our valuable customers for the time and effort in providing input through discussions and surveys. This report would not have been possible without the contribution of all of them.



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1

Executive summary

1 Executive summary

The Indian insurance industry is the fifteenth-largest insurance industry in the world with total premium income of more than INR400,000 crores across both life and non-life insurance. Life insurance registered tremendous CAGR of 31% between FY01 and FY10 followed by meagre CAGR of 0.6% between FY10 and FY15. Non-life insurance registered impressive CAGR of 17.6% between FY10 and FY15. However, penetration at 3.3% in 2014 and density at US\$55 in 2014 have remained low due to poor customer awareness, inadequate coverage of insured, inadequate not enough product innovation, nascent stage of distribution channels, and low per capita income along with increased inflation resulting in low disposable incomes in recent times.

Insurance broking is the only channel, which represents customers and not insurers. This unique role of the broking channel is recognized by the regulator, insurers and customers. Broking registered the highest CAGR of 27.7% between FY10 and FY15 among the major channels in non-life insurance. The channel contributed around INR19,300 crores of gross direct premium in FY15 resulting in 23.2% of the non-life insurance premium. However, the channel is still evolving and needs to meet risk management requirements of customers comprehensively.

To create a vision for the future, IBAI conducted surveys and discussions among more than 200 respondents across customers, brokers, insurers and other stakeholders to understand risk management needs of customers, perception around insurance meeting these needs and the role of brokers in risk placement.

Key findings around customers' viewpoint include:

- ▶ Price and service are the two most important aspects of corporate customers and more than 70% of corporate entities cited that they are satisfied with price discovery and servicing by brokers.
- ▶ Industry knowledge emerged as the third-most important aspect for corporate entities in selecting a channel. However, less than 10% brokers selected it among the top-3 aspects by customers, reflecting a gap in understanding their customers.
- ▶ Broking channel is considered as the most preferred source of information by 80% of corporate entities and as primary channel for major lines of business by 75% of corporate entities.
- ▶ Brokers score well in negotiating customers' interest with insurers with 87% of corporate entities satisfied on this aspect.
- ▶ Poor service could be the most important reason to switch broker by 78% of corporate entities.
- ▶ Niche, innovative and customized product development and one insurance shop by either the insurer or the broker are seen as top trends in customer demand over the next five years.
- ▶ Corporate entities are willing to avail more services from brokers with around 50% of them showing a preference for comprehensive risk management services, bespoke coverages, and analytics services from brokers in the next five years.
- ▶ Most individual customers are not aware about the broking channel; they believe that brokers need to highlight their roles and start using other platforms such as mobile and web.

In addition, key findings around insurers' and brokers' viewpoint include:

- ▶ Broking and direct channels are the most preferred channels for insurers for commercial lines of business with more insurers choosing broking over direct channel.
- ▶ However, there is incoherence between what brokers think insurers expect and what insurers really expect from brokers in terms of certain service offerings; brokers' views on providing claims management, underwriting and valuation services are not shared by insurers.
- ▶ When asked about their views on factors constraining the growth of the broking industry, 92% of insurers cited lack of professional brokers in the market and 58% of insurers cited limited service offerings by brokers as potential reasons.
- ▶ Most brokers are optimistic about their growth with 60% of brokers anticipating CAGR of more than 20% over the next five years.
- ▶ However, brokers have some concerns around regulations. 77% of brokers are concerned about renewal of licenses, 75% of them are concerned about remuneration and 60% of them are concerned about lack of clarity of role of other channels vis-à-vis the broking channel.

The findings around customer expectations from brokers are in line with the evolving role of brokers across many insurance markets, both developed and developing. Globally, broking channel is a dominant channel in non-life insurance and brokers have been adapting to changes in customer needs to maintain their relevance. This includes maintaining highest standards of professionalism, evolving their operating model, expanding service offerings, creating niche and new markets, focusing on technology and operational efficiency, and exploring new avenues of growth including acquisition among others.

The relevance of the broking channel in global markets has also been supported by the regulatory landscape, which seems to be evolving in serving customers' needs. Many mature insurance markets offer flexibility to brokers in terms of remuneration, service offerings and operating model including sub-broking among others so that they serve as an important instrument for meeting risk management needs of customers.

In view of stakeholders' expectations and global leading practices, key imperatives for insurance brokers in India include:

- ▶ Building increased trust with customers by adhering to a code of conduct, acting in the best interests of customers and refraining from undermining role of other brokers
- ▶ Expanding their service offerings to provide comprehensive risk management services and subsequent impeccable service and claims support
- ▶ Enhancing product and industry knowledge, focusing on niche and specialized offerings, and enabling product innovation through awareness and in-depth needs analysis
- ▶ Evolving their operating model and enhancing penetration through various means including leveraging online and point of sales platforms

IBAI, as the apex body for brokers, needs to enable brokers to achieve their imperatives and ensure the following:

- ▶ Promoting professionalism by establishing and enforcing a code of conduct, taking actions on breach of the code, resolving disputes and regulating brokers among others
- ▶ Facilitating development of the industry by working jointly with the Government and the regulator to address strategic concerns, and working with insurers to address common challenges
- ▶ Representing brokers and becoming their leading voice in taking up issues besetting the broking industry, and highlighting on-ground and global practices among others
- ▶ Enabling members through various initiatives such as training of members, publishing periodic reports, forging alliances with other associations, disseminating information and providing common platforms for certain services by leveraging economies of scale

To do these effectively, IBAI needs support from the regulator and hence, expectations from the regulator include:

- ▶ Recognizing the unique role of broking, maintaining the sanctity of the broking channel and customers' interests and spreading awareness about role of intermediaries
- ▶ Enabling IBAI to gradually become a functioning self-regulatory body thereby augmenting the role of the regulator
- ▶ Bringing in flexibility in remuneration along with enhanced transparency from brokers
- ▶ Providing flexibility in operating model including facilitating sub-broking, simplifying renewal process, and expanding service offerings among others
- ▶ Ensuring product reforms and segmented favorable tax regime

The insurance market in India is poised for growth over the next 10 years. The non-life insurance market is expected to grow at a CAGR of 13% to 17% and the life insurance market is expected to grow at a CAGR of 11% to 15% from FY15 to FY25. Whether the growth takes place at the low or high end of these ranges is likely to depend upon progressive actions taken by key stakeholders including insurers, brokers, the regulator and the Government among others. Insurers need to put customers at the forefront and focus on enhancing penetration. Non-life insurers need to balance differentiated and standardized products, manage their combined ratio in a more efficient manner; life insurers need to make the agency channel viable, optimize bancassurance and build trust with customers.

We can expect broking to contribute close to 40% of gross direct premium in non-life and around 1.6% of new business premium in life insurance in the progressive scenario. To achieve this potential, brokers need to play an enhanced role in meeting customers' needs and provide an impetus to growth of the industry. This role should be complemented with highest standards of professionalism in every transaction with customers. IBAI needs to govern, enrich and represent its members in front of other stakeholders and at the same time ensure development of the insurance industry by working with the Government, regulator and insurers.

The regulator has to balance multiple objectives and create a conducive environment for growth. It needs to ensure customer awareness, more flexibility to insurers in managing their operations, product reforms, sanctity and role of broking channel, customers' interests, and enable brokers to serve their customers through more flexibility in remuneration, and operating model.

The key for these stakeholders will likely be to drive customer-centric growth by understanding customers' current and evolving risk management needs and by making insurance as a favorable solution to meet most of these needs.

2

Insurance industry landscape



2 Insurance industry landscape

2.1 Introduction

The Indian insurance industry is the 15th largest¹ insurance industry in the world with more than INR400,000 crores of total premium in FY15. It ranks 11th in the world in the life insurance segment and 20th in the world in the non-life segment. The sheer size and growth potential due to low penetration and growing economy makes it one of the most attractive investment opportunities.

Parameter	Overall Rank	Overall business	Life business	Non-life business
Penetration Premium as % of GDP in 2014	42	3.3	2.7	0.7
Density Premium per capita in USD in 2014	76	55	44	11

Source: Swiss Re World Insurance Report 2014

The Indian insurance market holds significant potential due to its sheer size, low penetration, and expected growth in the economy and in key underlying sectors.

Despite its sheer size, India ranks 42nd and 76th on penetration and density, respectively. In addition, growing economy and fundamentals suggest significant potential in the Indian insurance market:

- ▶ India's GDP growth is expected to remain strong with 7.7% GDP growth annually till 2020²
 - ▶ Manufacturing and services are expected to grow rapidly with ~10% GDP growth
 - ▶ Government's initiatives such as "Make in India", spending on infrastructure and focus on digitalization are expected to propel the growth, which will have significant impact on insurance sector
- ▶ The inflation rate is expected to be below 6% for the next five years³ highlighting potential low rates regime and high consumer spending.
- ▶ Economically active population aged 15-64 accounted for 66% of total population in 2014⁴; this is expected to reach 68% by 2025 highlighting continual high working population and consequent high consumer spending.
- ▶ With narrowed current account deficit and dependence on internal markets, India is well poised to face external vulnerabilities.

Insurance worldwide plays a significant role in development of the country not only on the economic front but also on human development front. In India, this is especially relevant given inadequate extent of Government-led insurance schemes. Therefore, the role of insurance in India is substantial and includes:

- ▶ Contributing to India's GDP directly and indirectly
- ▶ Enhancing social security and standard of living
- ▶ Creating direct and indirect employment opportunities
- ▶ Investing in capital markets

Various stakeholders including authorities, the regulator, insurers, and intermediaries need to understand the role they play in the ecosystem and contribute to long-term vision for the industry.

¹ As per Swiss Re World Insurance Report 2014

² As per IMF and Timetric projections

³ As per IMF projections

⁴ As per Timetric report

The Indian insurance industry contributes to India's GDP both directly and indirectly, enhances social security, creates employment opportunities and plays a vital role in capital markets.

2.2 Non-life insurance industry

2.2.1 Overview

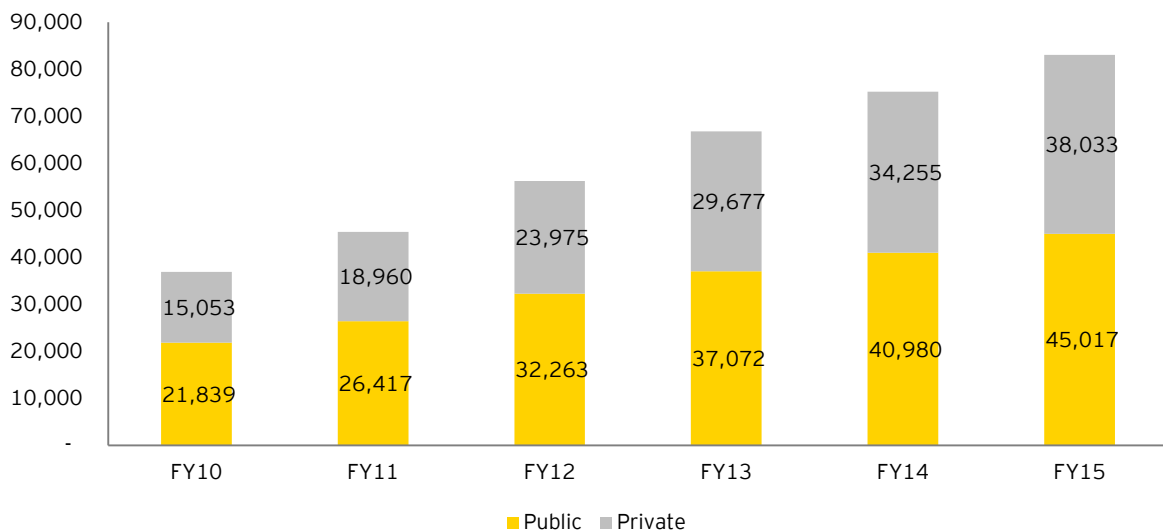
The Indian non-life insurance industry registered a moderate CAGR of 15% between FY02 and FY10. This was the period when the non-life insurance sector witnessed entry of new insurers, rise and subsequent slowdown of economic growth, and price de-tariffication. The industry sustained the growth and registered a CAGR of 17.6% during FY10 and FY15. However, the industry is still grappling with high claims ratio, poor supply chain management, lack of product innovation, and tariffed pricing in motor TP and policy wordings. All these factors, along with single-minded focus on capturing market share by few insurers, have affected profitability of non-life insurers. However, the growth outlook of non-life insurance remains strong due to existing under-penetration, and expected growth in underlying sectors.

The profitability of non-life insurance industry has come under pressure due to focus on top-line, high claims ratio, poor supply chain management, lack of product innovation, and tariffed motor TP pricing.

2.2.2 Size and growth

The size of the non-life insurance industry in terms of gross direct premium (GDP) has increased from ~INR37,000 crores in FY10 to ~INR83,000 crores in FY15 at a CAGR of 17.6%. Private insurers, 22 insurers including 5 standalone health insurers, have been increasing their market share from 41% in FY10 to 46% in FY15 and recorded CAGR of 20% during the review period. Public insurers, 4 insurers excluding AIC and ECGC, recorded CAGR of 16% during the review period and reported declined market share from 59% in FY10 to 54% in FY15.

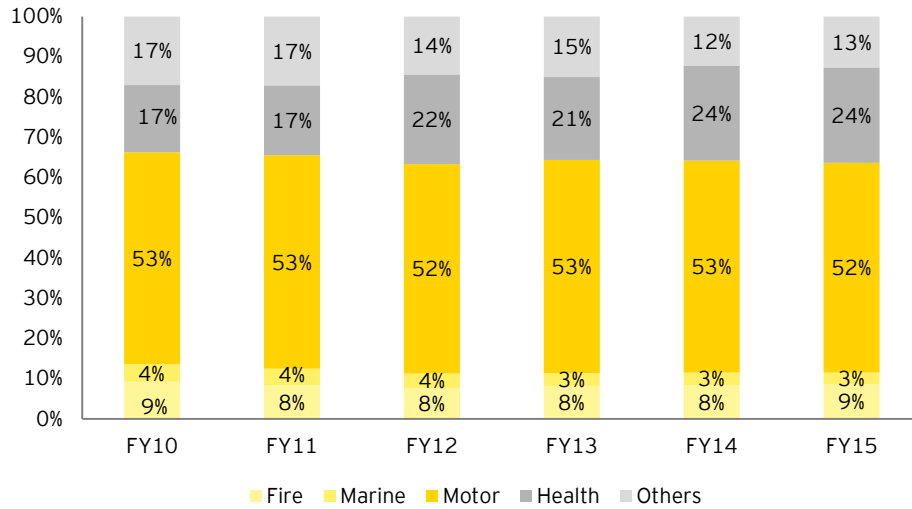
Gross Direct Premium of non-life insurers (INR crores)



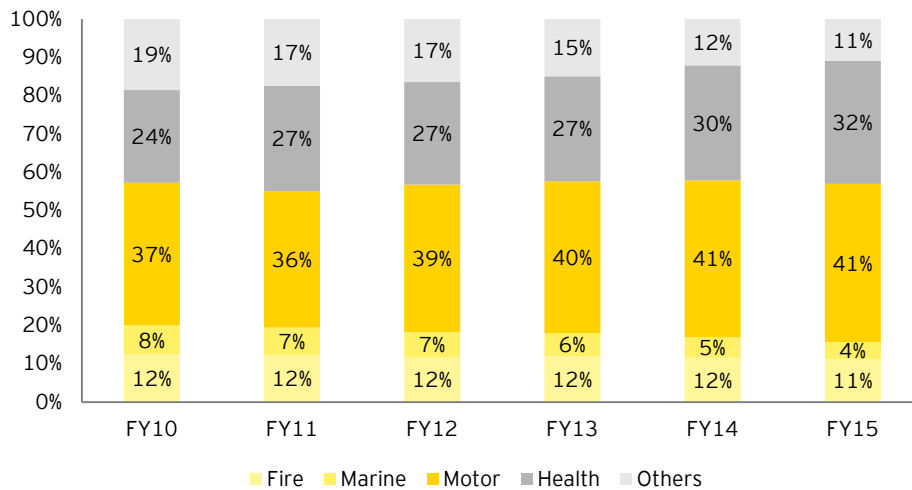
Source: IRDAI

Motor and health are dominant lines of business; motor contributed around 52% of GDP for private insurers and 41% of GDP for public insurers and health contributed around 24% for private insurers and 32% for public insurers. Motor and health are expected to contribute similarly due to high growth expectations of underlying sectors and under-penetration in health.

Lines of business mix for private insurers in FY15



Lines of business mix for public insurers in FY15

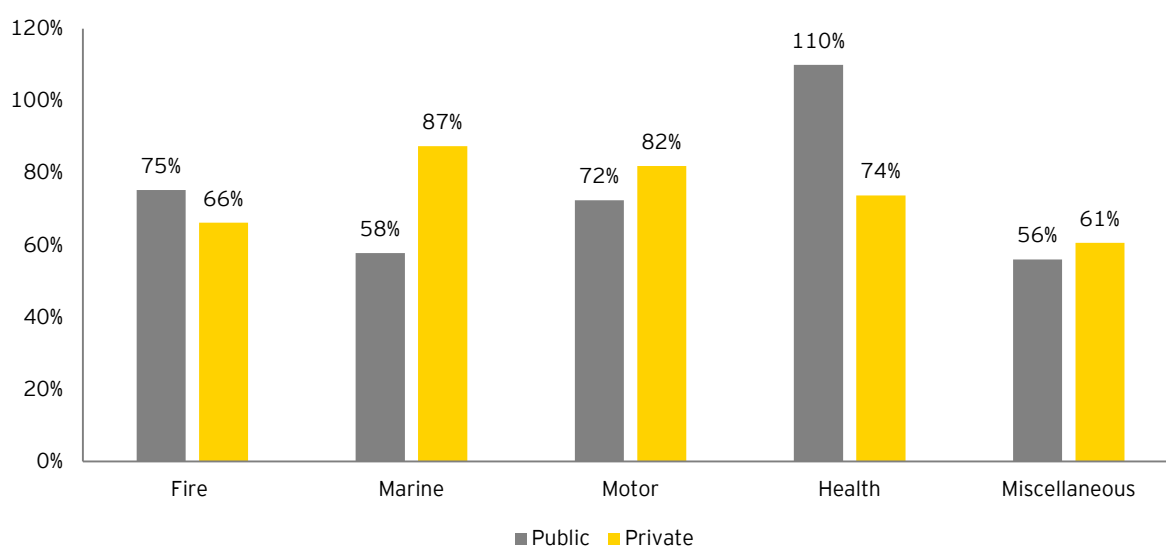


Source: IRDAI

2.2.3 Challenges

High combined ratio: Over the last few years, the combined ratio for non-life insurers – 116% for public insurers and 109% for private insurers (excluding standalone health insurers) in FY15 – has remained high. High claims ratio is a major contributor and poor claims management across key segments such as motor and health has affected profitability of non-life insurers. The high claims ratios in motor and health are due to relatively high claims ratio in motor TP portfolio and group health portfolio. High claims ratio in motor TP portfolio is due to regulated pricing, unlimited liability cover, fraudulent practices, and long window for claiming the damage. On the other hand, high claims ratio in group health portfolio – claims ratio of 116% in group health as compared to 81% in individual health in FY15 – is due to discounting offered to garner business. In addition, poor supply chain management, both in motor and health, is a key reason for inefficient claims management process.

Incurred claims ratio for public and private insurers in FY15



Source: IRDAI

Inadequate focus on standardization: Despite the size of the key segments such as motor and health, and increasing claims, the non-life insurance industry has not achieved efficiencies in terms of standardization of processes including protocols during the claims process.

Lack of sophistication: Both external and internal factors are responsible for lack of sophistication in the industry. External factors such as regulated pricing for motor TP, extent of frauds and internal factors such as non-risk-based pricing and poor focus on analytics have resulted in inadequate sophistication in the industry.

2.2.4 Recommendations for non-life insurers

Various drivers such as growth of the economy, growth of the underlying sectors such as automobile and manufacturing, rising awareness, increasing health care costs, and low penetration will propel growth of non-life insurance. Insurers need to take both collective and individual actions to achieve this growth and fix both external and internal inefficiencies:

- ▶ Collaborate with other non-life insurers using platforms such as General Insurance Council
 - ▶ Highlight need for innovative products to regulator
 - ▶ Build common infrastructure such as supply chain management, database on auto parts, settlement agency, common TPAs, claims data center and fraud data center
 - ▶ Educate customers on risk awareness, especially SME and retail customers with own businesses

- ▶ Tighten business practices and focus on quality of business
 - ▶ Insurers need to fix incurred claims ratios across group health and commercial lines of business
 - ▶ Make segments profitable and not depend on investment income alone
 - ▶ Focus on claims management process and supply chain
 - ▶ Focus on sales approach and sales management to make non-life insurance business attractive for agents and banks
 - ▶ Develop innovative channels for retail lines of business
- ▶ Invest in technology including data analytics and digitization among others
 - ▶ Fix the basics - invest in systems, ensure data integrity and focus on analytics
 - ▶ Risk-based underwriting and pricing especially in commercial and motor lines of business
 - ▶ Embrace digital both for customer-facing and back-end processes
 - ▶ Online as just not a sales channel but as a servicing point across channels

Non-life insurers need to be agile in a dynamic regulatory and economic environment, standardize supplier management, push for common agenda, and fix internal claims management and sales approach.

2.3 Life insurance industry

2.3.1 Overview

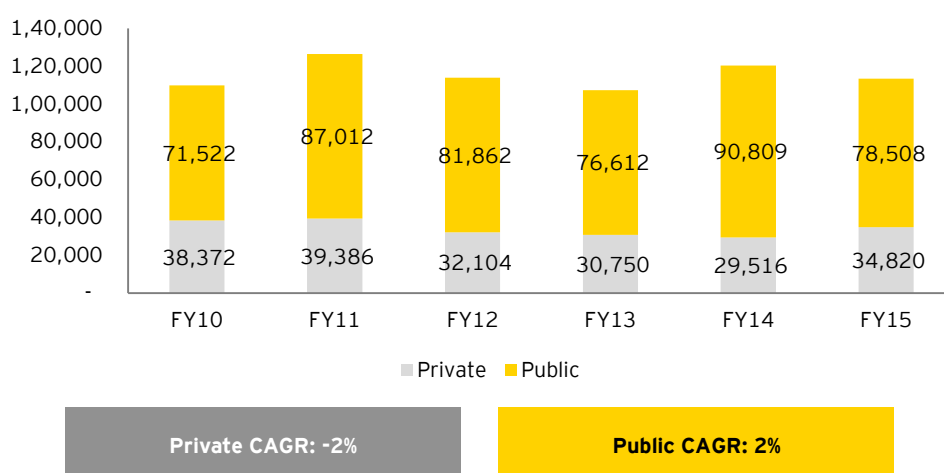
The Indian life insurance industry registered a significant CAGR of 31% between FY01 and FY10. This was the period when the life insurance sector witnessed entry of new insurers, emergence of distribution channels, and expansion of products portfolio among others. However, it has reported a meagre CAGR of 0.6% between FY10 and FY15 primarily attributed to radical regulatory changes, poor economic growth and lack of trust in the life insurance sector. This has forced a number of life insurers to amend their operating model which was focused on high cost agency model, undifferentiated bancassurance model, and poor focus on customers which impacted their renewal premium. Although the fundamentals of the life insurance industry are in place, insurers and the regulator need to ensure continual relevance of life insurance and respond to changes to enhance efficiency in their operations.

The life insurance has registered a meagre CAGR of 0.6% between FY10 and FY15 primarily due to radical regulatory changes, poor economic growth and lack of trust among customers.

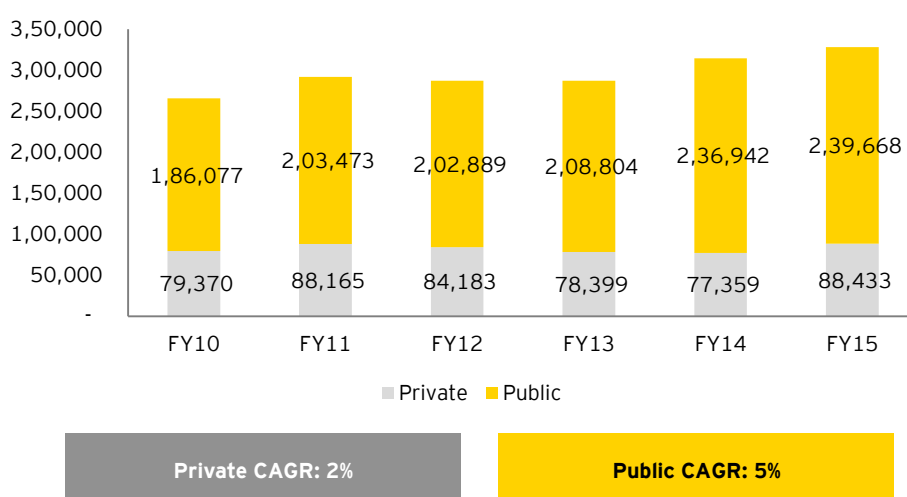
2.3.2 Size and growth

The size of the life insurance industry in terms of new business premium⁵ (NBP) has increased from ~INR110,000 crores in FY10 to ~INR113,000 crores in FY15 at CAGR of 0.6%. Private insurers had around 35% of market share in FY10, which reduced to 31% in FY15. NBP of sole public life insurer, LIC, grew at a CAGR of 2% whereas private life insurers, 23 in number, recorded a CAGR of negative 2% from FY10 to FY15. The decline in NBP of private insurers is attributed to capping on commissions on ULIP products introduced by IRDAI in 2010 and subsequent focus on cost management and quality of business. LIC, though, had limited focus on ULIP and in the last five years, it has managed to capture group business, which aided its growth.

New Business Premium (INR crores)



Total Premium (INR crores)

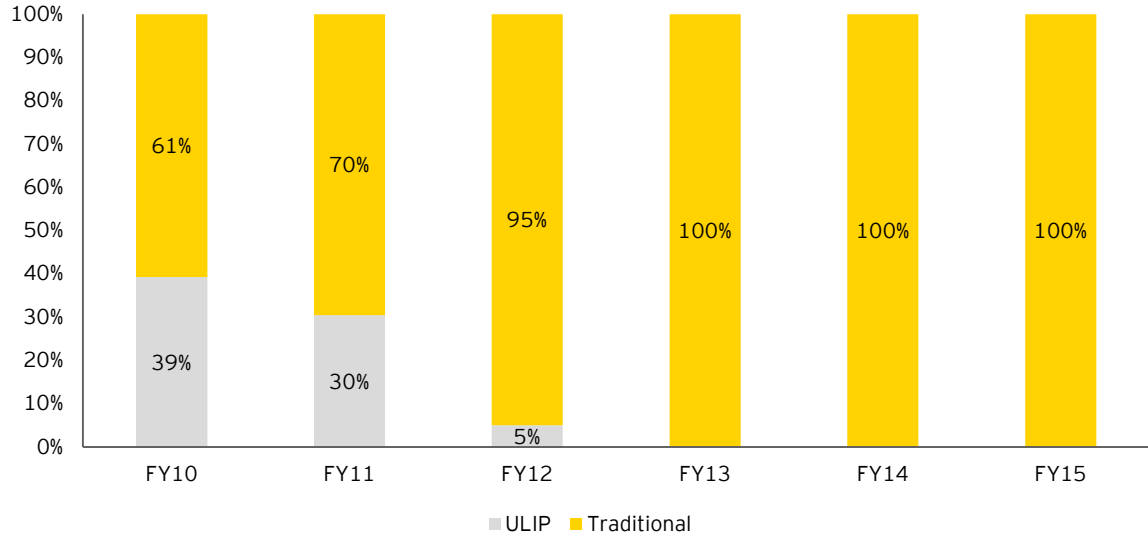


In terms of total premium, the industry grew at a CAGR of 4.3% during the review period. Sole public insurer recorded a CAGR of 5.2% and private insurers recorded a CAGR of 2.2%. For private insurers, decline in NBP was offset to a certain extent by increase in renewal premium with renewed focus on both strategic and operational changes around persistency.

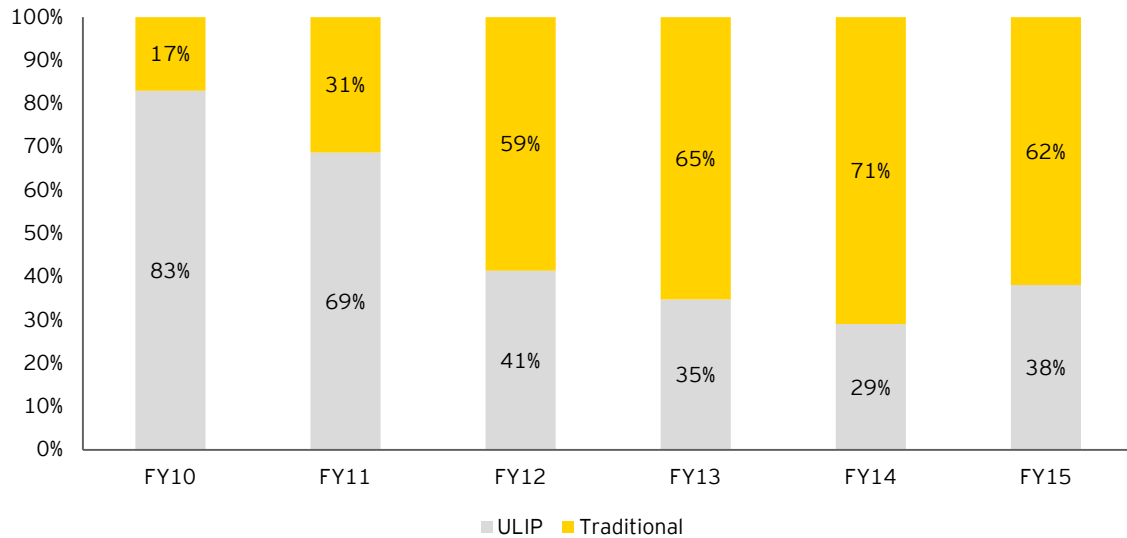
⁵ Calculated as sum of first year premium and single premium

ULIP contributed more than 80% of NBP for private insurers in FY10 and as a result they were affected heavily due to capping of commissions. This is reflected in the growth rate of private insurers during the review period.

ULIP and traditional mix for public insurer



ULIP and traditional mix for private insurers



Source: IRDAI

2.3.3 Challenges

Low-cost Government schemes: The Government recently launched a low-cost insurance scheme for saving account holders with banks. This thrust of the Government makes it difficult for insurers to compete especially in rural areas and smaller cities.

Economics of distribution channels: Almost all major distribution channels are struggling on economics. Fixed cost management and poor productivity in agency channel, less favourable terms in bancassurance and poor persistency levels are key issues for insurers.

Lack of trust: Several mis-selling issues, focus on short-term returns and poor professionalism by agents and intermediaries have been resulting in negative customer perception about life insurance.

2.3.4 Recommendations for life insurers

Varied drivers such as increase in FDI, untapped market for pension products, increase in working population and low penetration rate will soon take life insurance on the growth path. However, agility to respond to increasing regulatory intervention, changing customer preferences and disruptive changes in the industry such as technology will differentiate winners from losers.

Insurers need to focus on alleviating inefficiencies from the operating model by

- ▶ Fixing the agency channel
 - ▶ Test innovative models including variable compensation of sales managers
 - ▶ Transform the role of fixed cost sales managers and branch managers
 - ▶ Customer centric model across the sales and servicing process
 - ▶ Redefine sales approach and sales management
 - ▶ Go niche - create segmented sales force for better effectiveness
- ▶ Optimizing bancassurance distribution model
 - ▶ Collaborative approach with long term commitment from banks
 - ▶ Customization basis culture and customer segment
 - ▶ Redefine sales approach and sales management
 - ▶ Integrated service support
 - ▶ Make it easier for bank staff to sell policies
- ▶ Focusing on customer and not intermediary thereby creating real value proposition
 - ▶ Win-back trust of customers
 - ▶ Tighten sales processes including focus on need based selling
 - ▶ Revamp servicing and renewal department
- ▶ Investing in technology including data analytics, digitization among others
 - ▶ Fix the basics - invest in systems, ensure data integrity and focus on analytics
 - ▶ Embrace digital both for customer facing and back-end processes
 - ▶ Online as just not a sales channel but also as a servicing point across other channels

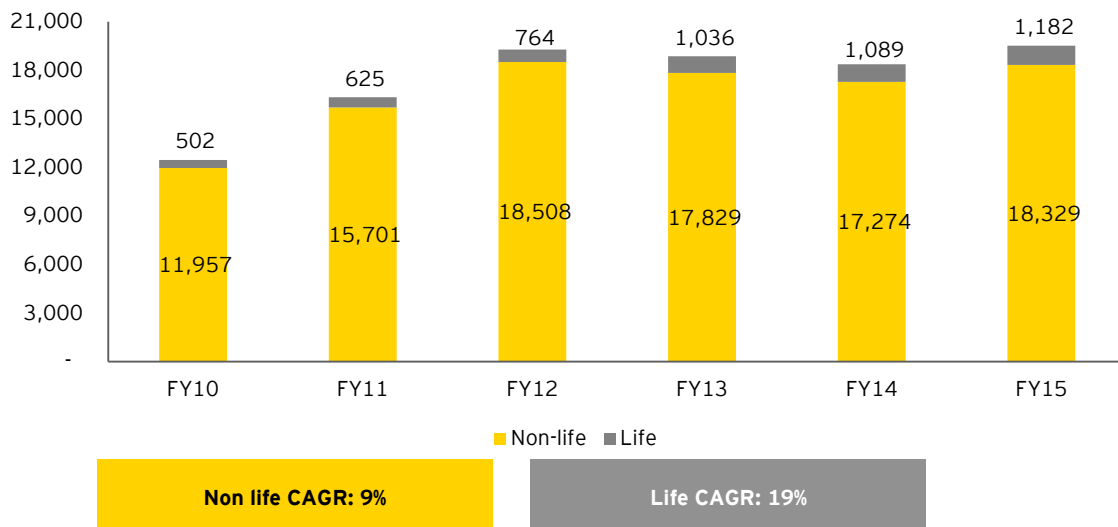
Life insurers need to be agile in a dynamic regulatory environment, make distribution viable, focus on customer and invest in technology to come out as winners.

2.4 Reinsurance industry

2.4.1 Size and growth

The reinsurance premium ceded by the insurance industry was close to INR19,521 crores in FY15. Traditionally, retail lines such as individual life, health and motor require less reinsurance support while commercial lines require increased reinsurance support due to the complexity of risks involved. As a result, the contribution of non-life insurance (including health and personal accident) was 94% of the total reinsurance ceded while the contribution of life insurance was only 6%.

Reinsurance premium ceded in non-life and life (INR crores)

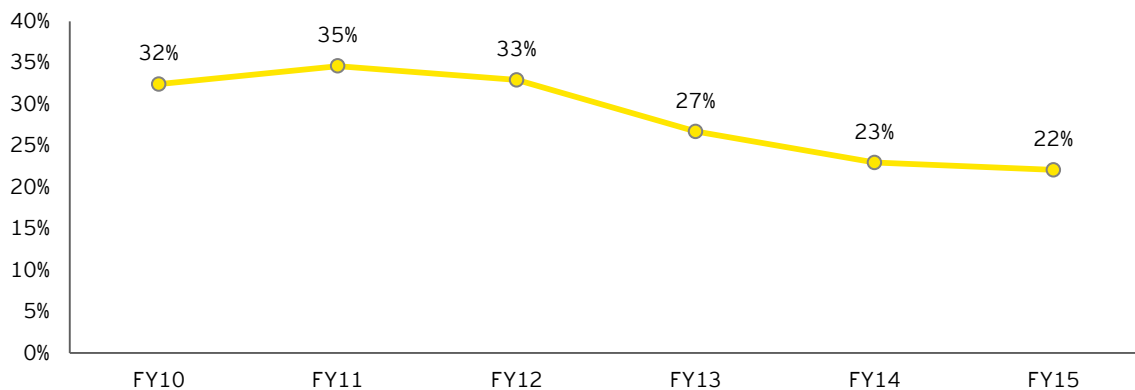


Source: IRDAI

Reinsurance premium ceded registered a CAGR of 9.4% between FY10 and FY15. This was driven by the growth in non-life insurance, which registered a CAGR of 8.9% during the review period. The higher growth in life insurance is driven by increased contribution of traditional products (especially term products) in both individual and group segments.

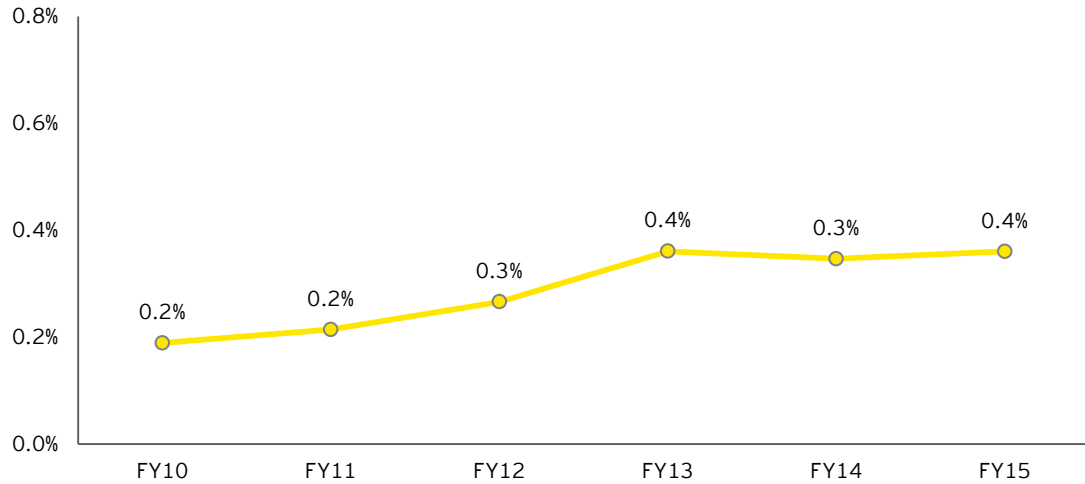
The percentage of reinsurance ceded by non-life insurance reduced from 32% in FY10 to 22% of gross direct premium (GDP) in FY15. The percentage of reinsurance ceded by life insurance increased from 0.19% in FY10 to 0.36% of total premium in FY15.

Reinsurance premium ceded as % of GDP in non-life insurance



Source: IRDAI

Reinsurance premium ceded as % of total premium in life insurance



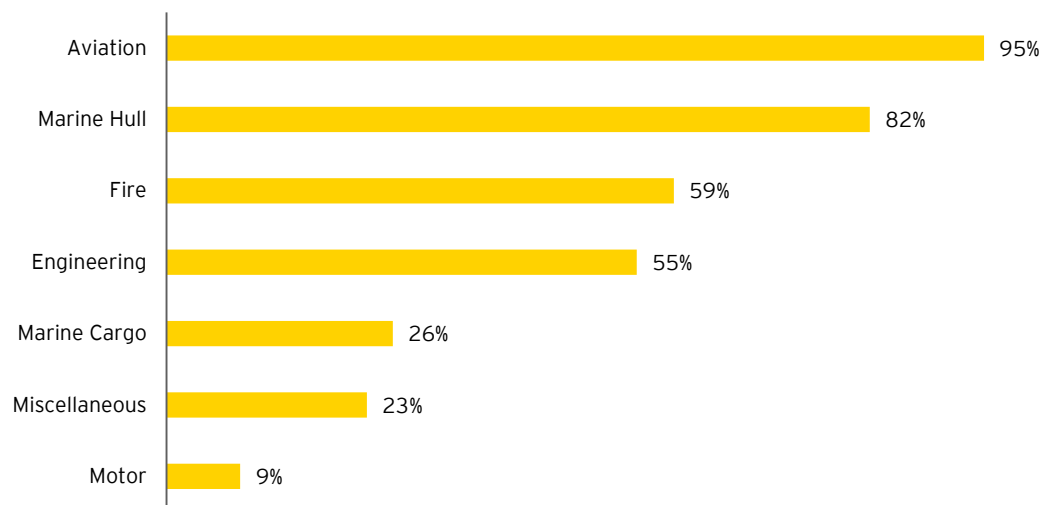
Source: IRDAI

2.4.2 Role of brokers in reinsurance

In the absence of actual data pertaining to share of brokers in the reinsurance market, the estimates for share of brokers range from 50% to 75% due to the major role of brokers in placement of large commercial and more complex risks. Although brokers play a role in both facultative and treaty arrangements, their role is reported to be more significant in facultative arrangements (facultative contributes around 20% of total reinsurance) and reinsurance ceded in international market (ceding in international market contributes ~40% of total reinsurance).

Following discussion with stakeholders, the contribution of brokers in reinsurance ranges from 50% to 75% highlighting significance of the broking in the reinsurance market in India

Line of business wise reinsurance placed as % of GDP in FY15



Source: IRDAI

Aviation, marine, natural catastrophes, and fire are major categories contributing to the growth of reinsurance. Reinsurance brokers play an important role in the aviation sector. Large airlines risks are placed in the international market through reinsurance brokers, although other aviation policies such as liability and maintenance are typically placed within India, mainly through treaty contracts. In future the role of brokers is expected to be significant with the predicted growth in the aviation sector and the corresponding growth in the reinsurance market.

Liability is a relatively new business line in India; the growth in liability is being driven by globalization, through increasing presence of international businesses in India, Indian companies expanding outside, migration of working populace in and out of India and changes in legislation such as the Companies Act. New business lines such as cyber and M&A activity are further expected to drive the growth of liability lines. Treaty arrangements remain the preferred option for the market currently while facultative arrangements are more prevalent for specialty risks such as D&O, E&O, cyber risks, and product recall. Reinsurance for liability is supported by GIC Re as well as international reinsurers and serviced by brokers.

For marine hull insurance, the international reinsurance market plays a critical role, apart from GIC Re for both treaty and facultative placements. Property insurance is typically reinsured in India due to the capacity available within the Indian market. However, large risks such as petro-chemical, fertilizer and refineries need international capacity. Reinsurance programs remain largely proportional in nature and continue to be largely treaty arrangements with only the large risks being placed as facultative.

2.4.3 Challenges

Major challenges faced by the reinsurance industry include:

- ▶ **Inadequate modernization:** There is only one reinsurer in India – GIC Re. At the same time, insurers are allowed to cede premium to reinsurers outside India, and this has played an important role in risk placement and price competitiveness. However, the extent of modernization in terms of risk management and modelling practices is inadequate as compared to mature insurance markets.
- ▶ **Low levels of risk awareness:** Despite high profile corporate scandals and increasing incidence of natural catastrophes in and around India, risk appreciation in terms of maximum foreseeable loss remains low.
- ▶ **Inadequate sophistication of risk management:** Risk management and related processes, including risk monitoring and modelling, are still nascent in India. This has a direct impact on risk transfer practices to reinsurance segment.
- ▶ **Restrictions on reinsuring certain risks:** Restrictions around not reinsuring Government sponsored health schemes, and reinsuring only risk part of life insurance are some of the reasons for under-development of reinsurance.
- ▶ **Coinsurance in India:** The presence of coinsurance, which allows insurance companies to act as reinsurers, has resulted in reduced demand for reinsurance in India.

Broking community is expected to play a significant role in risk management for clients thereby, alleviating some of the indirect challenge areas in reinsurance

2.4.4 Drivers

Following are key drivers, which are expected to bolster the reinsurance industry:

- ▶ **Increasing participation of reinsurers:** The growth of reinsurance will be driven by increased FDI limits and IRDAI allowing foreign reinsurers to open branch offices in India. This will be further enabled by international reinsurers' experience, capabilities to develop new products, and global pricing and marketing experience.
- ▶ **Growth of underlying insurance industry:** Life and non-life insurance are expected to register moderate to impressive growth in the medium term, which will subsequently result in the growth of the reinsurance industry.

- **Frequency of natural disasters:** India has faced several natural disasters in recent times including Chennai floods, Uttarakhand floods and Hudhud cyclone. These are expected to increase insurers' vulnerability thereby, increasing demand for reinsurance.

2.4.5 Regulatory update

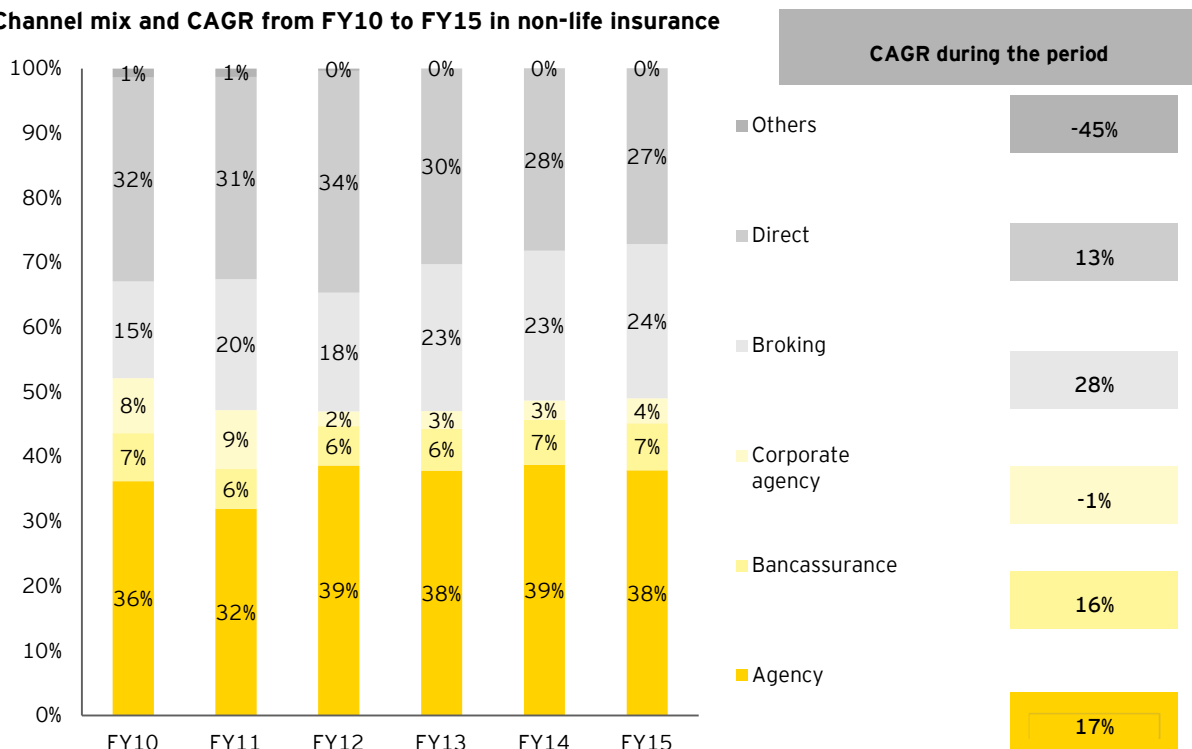
Following the passing of the Insurance Laws (Amendment) bill 2015, foreign reinsurers are permitted to open branch offices in the country and FDI limit is increased to 49% for reinsurers. Although presence of branch offices of foreign reinsurers may not bring about major change in the short term, it is going to develop the reinsurance market and related practices in the medium to long term. Several international reinsurers have announced their intent to set up reinsurance branches in India and some have already started to operationalize their branches as well.

2.5 Distribution landscape

2.5.1 Overview

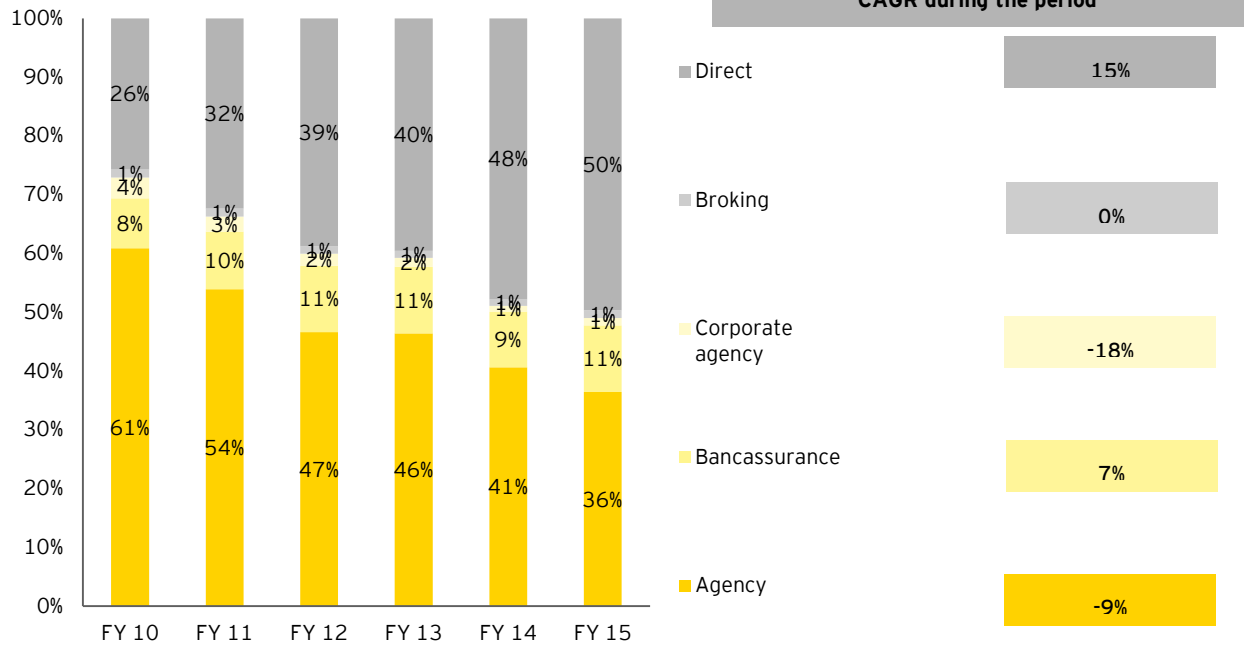
Since the liberalization of the insurance industry, insurers have been focusing on varied distribution channels to reach consumers and manage economics. This has resulted in significant shift in distribution landscape with expansion of agency and emergence of bancassurance and other intermediary channels. This development of distribution channels has contributed majorly to success of the insurance industry in India from 2000 to 2010. However, in the last five years, there has been no major emergence of new channel and major channels have remained the same with different contributions as depicted below.

Channel mix and CAGR from FY10 to FY15 in non-life insurance



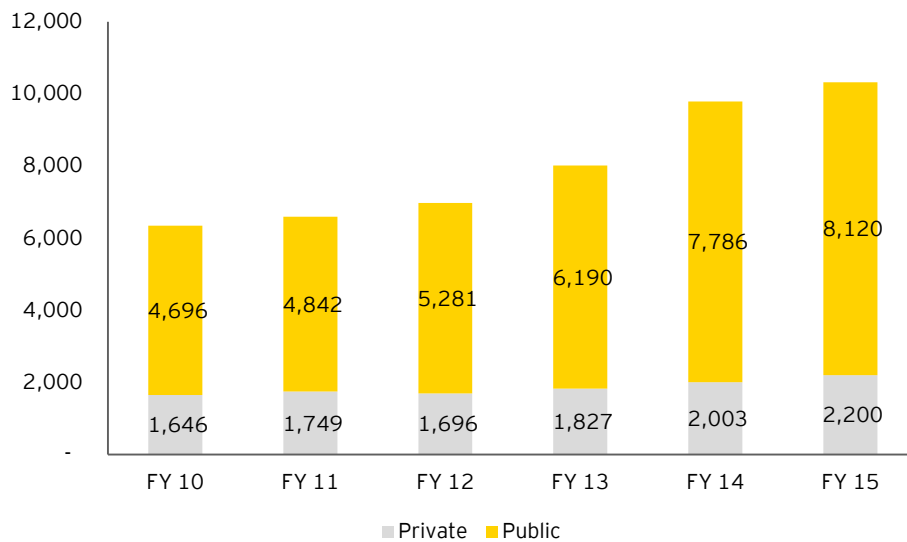
In non-life insurance industry, agency, direct and broking are dominant channels. Among these dominant channels, broking registered the highest growth of 27.6% CAGR during the review period. The dominance of agency channel in non-life insurance can be attributed to public insurers resorting to captive agents, while private insurers preferring a balanced distribution model. This is also reflected in the growth of number of offices of public sector insurers.

Channel mix and CAGR from FY10 to FY15 in life insurance

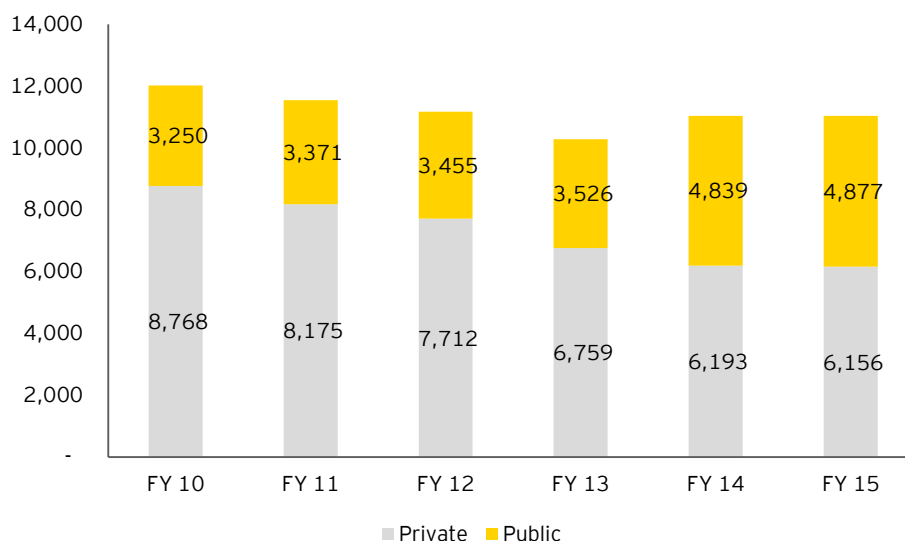


In non-life insurance, broking channel registered the highest CAGR of around 28% during the review period among the dominant channels

No. of offices of public and private insurers in non-life and life
Non-Life



Life



Source: IRDAI

In life insurance, agency and direct are dominant channels for the industry and agency and bancassurance are dominant channels for private insurers. In a quest to replicate LIC's successful agency channel, private insurers had invested heavily in the agency channel; however, pressure on profitability has resulted in consolidation of branches in the last few years. Bancassurance demonstrated profitability in the beginning and easier way to target consumers; however, economics of this channel has become tight in current times as banks have started understanding their importance and negotiating more favourable terms for themselves.

2.5.2 Major channels

2.5.2.1 Agency channel

In India, insurance is still considered a complex cover and therefore, customers prefer face-to-face interaction to understand product features before buying. The agency channel has played an important role in enabling these interactions and has evolved into a more consultative and service-oriented approach.

According to our insurers' survey, more than 80% of insurers cited agency to be their most preferred channel for both individual life and retail lines of business in non-life.

In the non-life segment, agency is the dominant channel during the review period, accounting for 38% of gross direct premium in FY15. The channel has registered CAGR of 17% during the review period and has kept pace with the industry. Although dominant, the non-life agency model is challenged on various fronts.

- ▶ Reduced ticket size in retail non-life insurance as compared to life insurance, combined with lower volume, except in motor, results in reduced compensation and makes it difficult for agents to work full-time
- ▶ Inability of agents to sell non-life products due to inadequate sales support including poor training and product knowledge, which is more varied in non-life insurance

Agency in non-life insurance requires efforts on enhancing customer service, sales and development programs, and transparency in claims to evolve and sustain as a dominant channel.

In life insurance, the agency channel accounted for 36% of new business premium in FY15. The channel accounted for 42% for public insurers and 25% for private insurers' new business premium. This is the dominant channel when it comes to new business premium from individual customers. The agency model is more severely challenged in life insurance:

- ▶ In a quest to replicate LIC's successful agency model, almost all life insurers have deployed fixed cost agency models, which has resulted into high expense ratios for insurers
- ▶ Activation of agents has always been a problem for private insurers; low number of active agents has impacted the overall productivity of agency managers
- ▶ Lack of clarity on role of agency managers and inefficient agent recruitment and management process has impacted the economics of the channel as well

Agency channel in life insurance needs to try out innovative models. The channel requires structural changes in the medium to long term and professionalism and consolidation in the short term.

2.5.2.2 Direct channel

Traditionally, direct channel refers to insurer owned sales team serving both retail and corporates. The evolution of technology has enabled insurers to develop more effective ways to expand their direct channel. In addition to the insurer-owned sales team, the channel has evolved to include telemarketing and online media as well.

According to our insurers' survey, 69% of insurers cited direct channel as their second most preferred channel - after broking which found preference for 77% of insurers - for commercial non-life products.

In non-life insurance, direct is the second-largest distribution channel, accounting for 27% of gross direct premium in FY15, reporting a CAGR of 13% during the review period. Insurers consider this channel favourably due to relatively low costs and more control over customers. In addition, the direct channel also ensures the quality of service, as the insurers have direct control over their sales force. Challenges associated with this channel are:

- ▶ Emergence of web aggregators and online brokers with their emphasis on price comparison is challenging the direct sales channels of insurers
- ▶ Strengthening role of brokers in commercial lines, which require in-depth understanding of risks faced by a business, in displacing the role of insurers' direct sales force
- ▶ Channel economics (in retail lines) and lack of convenient servicing touch-points are other challenges besetting the channel

In life insurance, direct channel has remained the dominant channel during the review period, accounting for 50% of new business premium. The channel accounted for 57% of new business premium for public insurer and 33% for private insurers. The predominant product category for the channel is group life insurance business. One of the major challenges associated with this channel is poor economics.

- ▶ In-house salaried sales force focusing on individual business has suffered poor economics due to lower-than-expected productivity. This is due to inefficient sales management (including lead generation sources) process.

Both life insurers and non-life insurers can choose to operate on specific segments across various media and products to make the channel viable. Other imperatives for insurers include:

- ▶ Focus on sales management to monitor activities and overall productivity
- ▶ Focus on input parameters and support to deliver leads to the sales force of this channel

2.5.2.3 Bancassurance channel

The bancassurance channel is convenient for consumers due to its reach, trust factor, banks acting as one-stop shop for most investing needs, and assurance on banks to help during servicing and claims. The channel also benefits from products such as mortgage linked term insurance products, fire, motor or cattle insurance to customers availing loans.

Bancassurance is one of the major channels to emerge in the last decade. However, the channel has underperformed on penetration (especially in non-life retail lines), activation of branches and living up to the expectations of the customer base.

In non-life insurance, the channel has demonstrated limited success with contribution of 7% of gross direct premium. Challenges associated with the channel in non-life insurance are:

- ▶ Banks are not able to penetrate extensively into health and motor portfolio and not able to leverage their corporates for commercial lines of business
- ▶ Complex non-life insurance products have resulted into difficulties in product understanding and subsequent sales by bank staff
- ▶ Low activation of branches, ineffective sales management through bank staff and focus on other banking and life insurance products are other challenge areas

In life insurance, the channel has been a major success with contribution of 34% of new business premium for private life insurers. However, the overall contribution of the channel is only 11% of new business premium due to a meagre 1% contribution of channel for LIC. Challenges associated with the channel in life insurance are:

- ▶ The success has primarily been contributed by private banks; insurers have had limited success with PSU banks
- ▶ Customization has not taken place for several tie-ups; insurers and banks alike are not able to tap specific requirements of customer base; in addition, sources of leakages exist at most activities of the sales process
- ▶ Banks have started to understand their importance in the eco-system and started tightening terms with insurers. This has led to escalating distribution cost for insurers

Long term mind-set by banks, customized offerings according to banks' customer base, effective sales management, and integrated servicing are key areas for both life and non-life insurers to leverage the channel effectively and efficiently.

2.5.2.4 Corporate agency channel

Corporate agents could refer to either small set-up businesses or larger ones with established distribution and brand working for only one insurer. With recent IRDAI guidelines on this channel, these agents are open to sell policies of three insurers in each category (life, non-life and health). The large corporate agents offer a lot of value addition to insurers due to their customer base, and distribution network.

Corporate agency has witnessed radical downward shift in its contribution to both life and non-life insurance industry. Effects of the recent IRDAI guidelines, which is alike for all types of corporate agents, need to be evaluated carefully especially in the context of small corporate agents.

In non-life insurance, contribution of the channel as a percentage of gross direct premium has reduced from 8% in FY10 to 4% in FY15. Challenges associated with this channel are:

- ▶ Mis-selling and poor servicing by small corporate agents put brand of insurers at stake and hence, these are considered a potential risk.
- ▶ Large corporate agents' tightening terms with insurers have resulted in reduced interest from insurance companies.

In life insurance, the channel's contribution – as percentage of new business premium – has reduced from 4% in FY10 to 1% in FY15. Even for private insurers, their contribution has reduced from 10% in FY10 to 4% in FY15. Challenges associated with this channel are:

- ▶ Quality of sales (and subsequent persistency) is a key concern area with corporate agency. This is more severe with small corporate agents.
- ▶ The large corporate agents leverage on their brand names and act akin to bancassurance channel; however, these agents have realized their value and insist on higher pay-outs and enhanced support.

Corporate agents provide opportunity to insurers to leverage existing distribution. Insurers need to align business and operating model according to large corporate agents. In addition, efficient sales management, servicing support and IT integration can go a long way to make this channel significant again. Insurers can also explore option of alternative third-party partners that offer either customer base or distribution reach. These include retailers, telecom companies, and utility companies among others.

2.5.2.5 Broking channel

The proposition of this channel is that brokers represent customers and not the insurance company. In non-life insurance, broking contributed 23.2% of gross direct premium in FY15 and the channel has registered a CAGR of 27.6% between FY10 and FY15. However, in life insurance, broking contributes only 1.3% of new business premium; the channel is more significant for private life insurers - 4% contribution – as compared to no contribution of broking for LIC.

According to our insurers' survey, the broking channel is the most preferred channel for commercial lines of business; understanding of customer requirements and servicing capabilities are reasons for preference of broking over other channels.

The broking channel in Indian non-life insurance industry has witnessed higher-than-industry growth. There are still many opportunities with brokers to evolve as a dominant channel in non-life insurance. Brokers have marked their names primarily on their nature of negotiating discounted rates based on volume of business or aggregating number of insurers. They now collectively need to move up the value chain to meet demands of customers.

2.5.3 New channels

Segment-specific distribution models

The trends around online and mobile channels have been promising. This has mandated insurers to focus directly or through aggregators on these media. In addition, segment-focused channels and other sourcing models emanating from alliances and sector ties are gaining attention of insurers. Alternative third-party alliances – such as retailers, telecom companies, utilities companies – are one area, which is yet untapped despite huge distribution network offered by them.

Insurance Marketing Firms (IMFs)

This is a new distribution channel for which the regulator recently finalized guidelines. IMFs will be allowed to solicit and sell products of two life, two non-life and two health insurers. They will be allowed to sell other financial products of banks and non-banking financial companies as well. Under the non-life category, IMFs can distribute only retail insurance products such as motor, health, and travel among others and can undertake back-office or servicing activities according to outsourcing guidelines. At the time of initial grant of registration, the IMFs are permitted to set up offices in only one district. They can apply for more areas during renewal of registration.

Web-aggregators

The operating model of web-aggregators has changed radically after the guidelines by IRDAI in 2013. These guidelines, on one hand, allowed aggregators to undertake servicing activities, act as tele-marketers albeit with certain conditions. However on the other hand, the guidelines have made operations of web-aggregators challenging with following key changes:

- ▶ Aggregators cannot have referral arrangement with insurers
- ▶ Aggregators cannot advertise or display any information on products of other companies
- ▶ Aggregators cannot list policies with more than INR50,000 premium
- ▶ Increased cost of compliance due to appointment of principal officer and frequent audits among others

According to our insurers' survey, respondents are divided over significance of online platform for catering to SME customers for their commercial lines of business-related insurance needs.

Point of sales

The IRDAI has proposed Point of sales (PoS) to act as distribution channel to sell pre-underwritten policies that need little or no intervention by an intermediary. The distributor can sell only motor, personal, home, travel insurance and other products approved by IRDAI. Increased distribution footprint, and convenience of sales are some of the advantages expected; however, challenge areas could be to sell slightly complex products such as home insurance, and monitoring of intermediaries on a large scale.

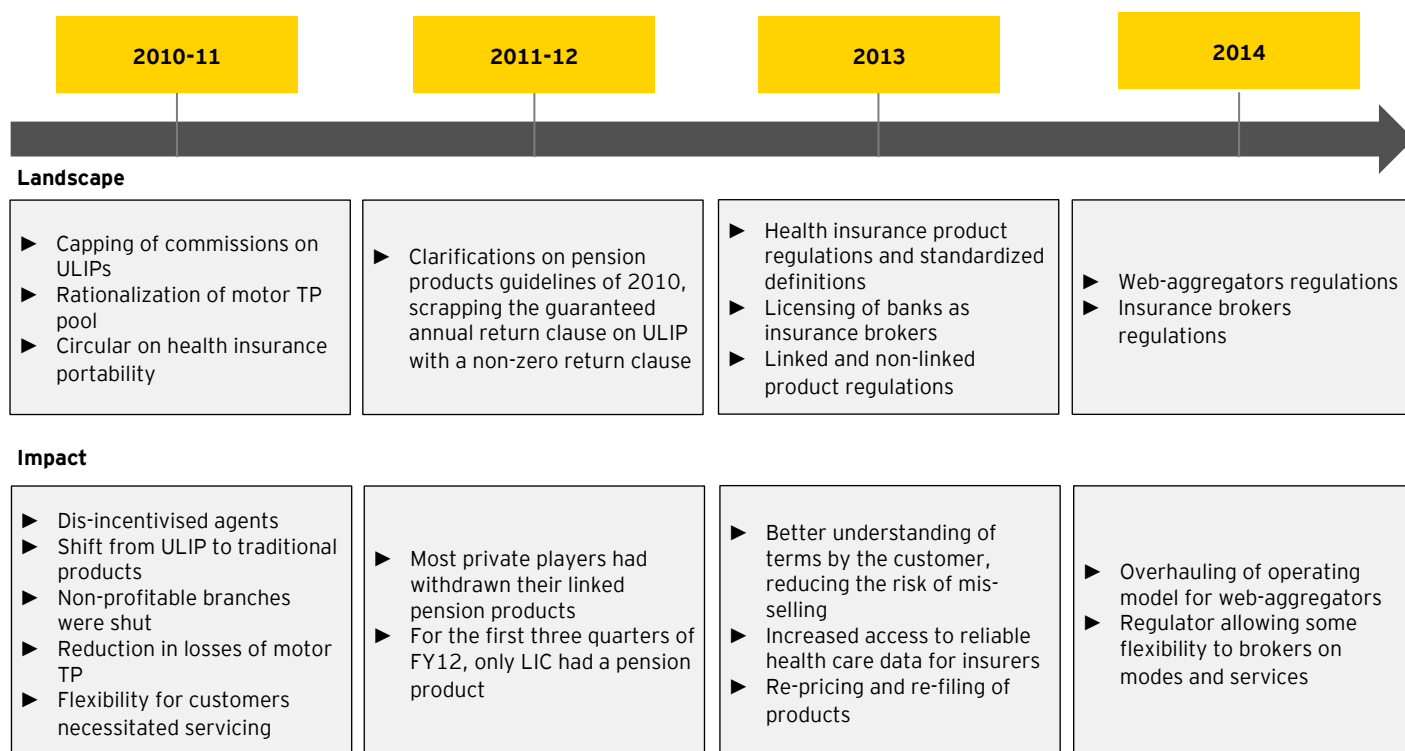
2.6 Regulatory landscape

2.6.1 The past

Regulatory changes in the insurance sector have played a dominant role in shaping the industry, both from a growth and a profitability perspective. Capping of commissions, declined risk pool for Motor TP, and guidelines on pension products were significant changes in the recent past. These changes have necessitated insurers to make changes in their operating model and could best be described as disruptive in nature.

The regulatory changes in the last 5 years could be classified as both disruptive and incremental, which not only resulted in tightening of insurers but also alleviating inefficiencies for benefits of customers.

Major changes in regulatory landscape between FY11 to FY15 and their impact



Source: EY analysis

2.6.2 The present

Major regulations in the current year include increase in FDI limits, corporate agents to sell policies of more than 1 insurer, and introduction of IMFs among others. These changes could best be described as progressive in nature and in favour of both insurers and customers.

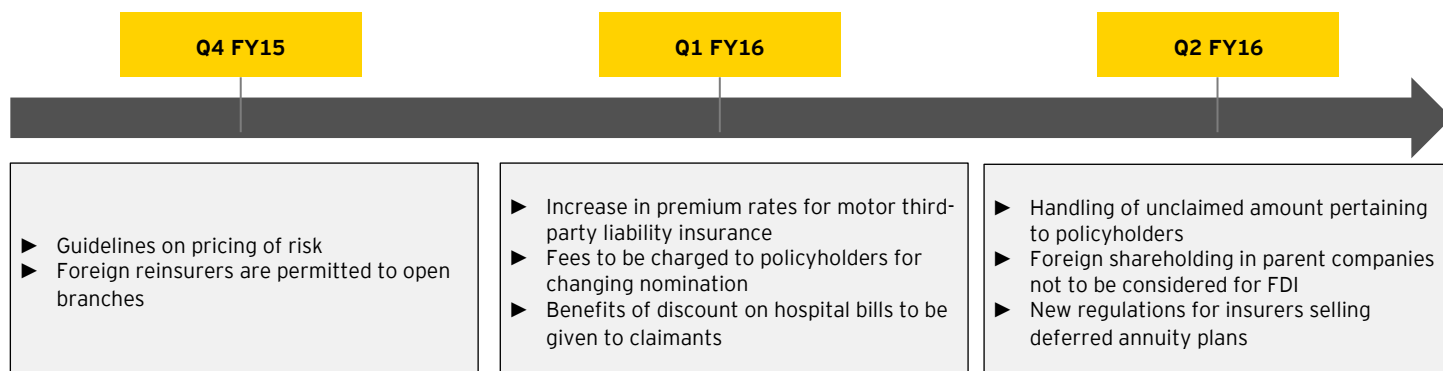
Major changes in regulatory landscape in the last year and their impact on stakeholders

Key changes	Aspects covered	Expected Impact		
		Customer	Insurer	Intermediary
Increase in FDI limits	<ul style="list-style-type: none"> ▶ Increase in FDI limits from 26% to 49% 	High	High	Medium
More flexibility to insurers	<ul style="list-style-type: none"> ▶ Elimination of standard expense limits ▶ Flexibility on the maximum commission ▶ End of licensing system of agents ▶ Requirement of deposit withdrawn ▶ Appointment of advisors by insurers 	Medium	High	High
Corporate agents to sell policies of more insurers	<ul style="list-style-type: none"> ▶ Corporate agents are allowed to sell policies of at most 3 life insurers, 3 non-life insurers, 3 health insurers 	High	Medium	High
Introduction of IMFs	<ul style="list-style-type: none"> ▶ Allowed to sell for two life, two non-life and two health insurers ▶ Allowed to sell other products 	Medium	Medium	High
More accountability	<ul style="list-style-type: none"> ▶ Strong governance process ▶ Greater accountability for intermediary ▶ Significant increase in penalty 	High	High	Medium



Source: EY analysis

Other changes in regulatory landscape in the last year



Source: EY analysis

Based on the study of past and present regulatory changes, it is clear that the authorities are active in the insurance space, aware about on-ground realities and committed to bring about progressive changes in the insurance industry.

2.6.3 The future

After seeing the past and the present, it appears that direction of regulatory changes by the regulator could be positioned as:

- ▶ Protecting and promoting customers interests
- ▶ Alleviating inefficiencies from the market
- ▶ Bringing in professionalism among stakeholders
- ▶ Blending of best practices of developed markets

In view of this, the industry can expect following changes going forward. The list below includes, but not limited to, anticipated regulatory reforms based on plans or announcements by IRDAI recently.

Customer interests:

- ▶ Settlement of insurance claims within time frame
- ▶ Overhaul inefficiencies from health insurance value chain
- ▶ Guidelines on involvement of insurers in various state and central government-sponsored schemes
- ▶ Long-term health insurance plans

Inefficiencies from the market:

- ▶ Risk-based solvency framework
- ▶ De-tariffication of motor third-party liability insurance
- ▶ Fees revision for external surveyors and loss assessors
- ▶ "Use and file" for commercial lines of business

Professionalism:

- ▶ Corporate governance and disclosure rules
- ▶ Insurers are allowed to raise other forms of capital

Focus areas for regulator

Based on the viewpoints garnered from various stakeholders including customers, insurers and broker, additional focus areas for the regulator for the industry should include:

Environment related:

- ▶ Ensuring favourable tax benefits regime for policyholders
- ▶ Ensuring additional tax benefits for products with long-term horizon, and incentives for insurers in terms of expenses management for the same
- ▶ Investing in consumer awareness and education on various aspects
- ▶ Protecting customers by mandating insurance across segments such as home insurance in natural calamity prone areas and agriculture insurance in weather affected areas
- ▶ Considering differentiating commercial clients from individual customers and coming up with segment specific guidelines to enable growth of commercial lines

Insurers' operating model related:

- ▶ Enabling flexible investment norms for insurers
- ▶ Enhancing professionalism across corporate governance, and line of business-wise risk measurement among others
- ▶ Ensuring customers' interests through tightened business processes, compliance requirements, and mandatory disclosures
- ▶ Enabling robust outsourcing norms for insurers
- ▶ Sharing 3 years roadmap plan for regulatory actions with insurers so they could prepare their course of actions

Product related areas:

- ▶ Enabling rapid product approval process
- ▶ Enabling use and file process for specific segments to start with
- ▶ Relaxing policy wordings to enable product innovation
- ▶ Revamping health insurance across the value chain including comprehensive health insurance products, role of various market participants, standardization across pricing and protocols and innovative products among others

Distribution related areas:

- ▶ Promoting entrepreneurial based agency models
- ▶ Enabling innovative distribution models
- ▶ Promoting industry wide segmented training academy for advisors and bank staff, if required

3

Broking landscape

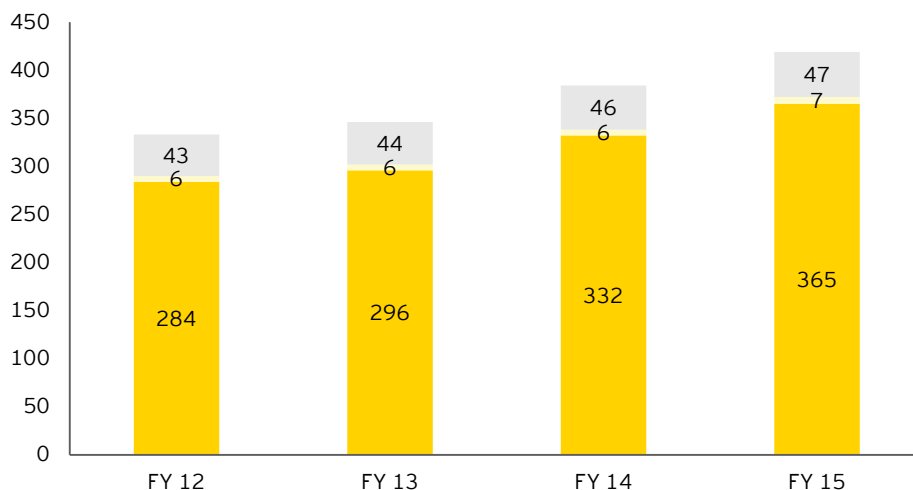
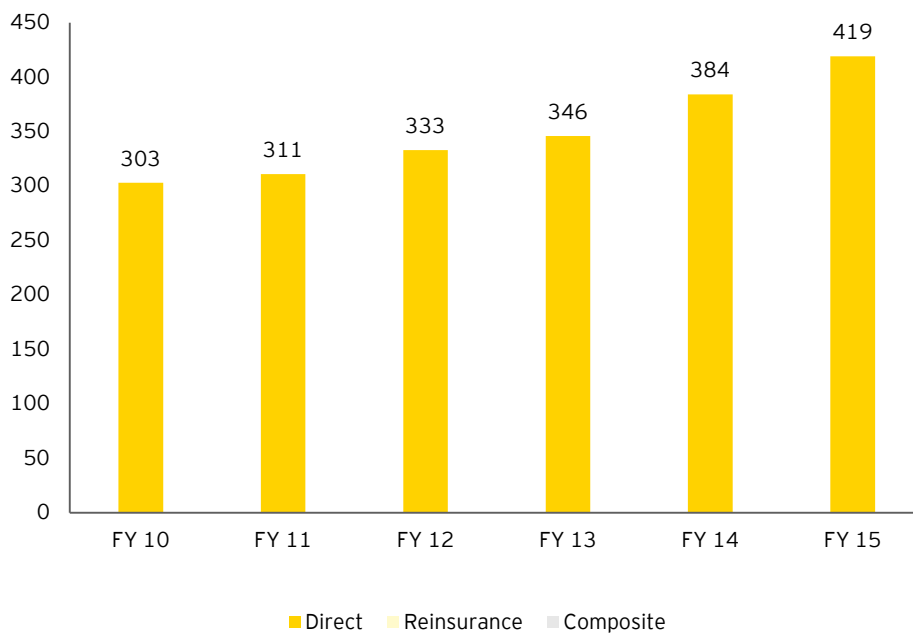


3 Broking landscape

3.1 Structure of the industry

A significant number of brokers have entered the Indian insurance broking industry, since 2003 when brokers were allowed to act as intermediaries. At the end of FY15, there were 419 issued licenses by IRDAI, which includes 51 cancelled licenses. Over the last four years, the number of brokers registered has grown from around 300 in FY10 to 419 in FY15.

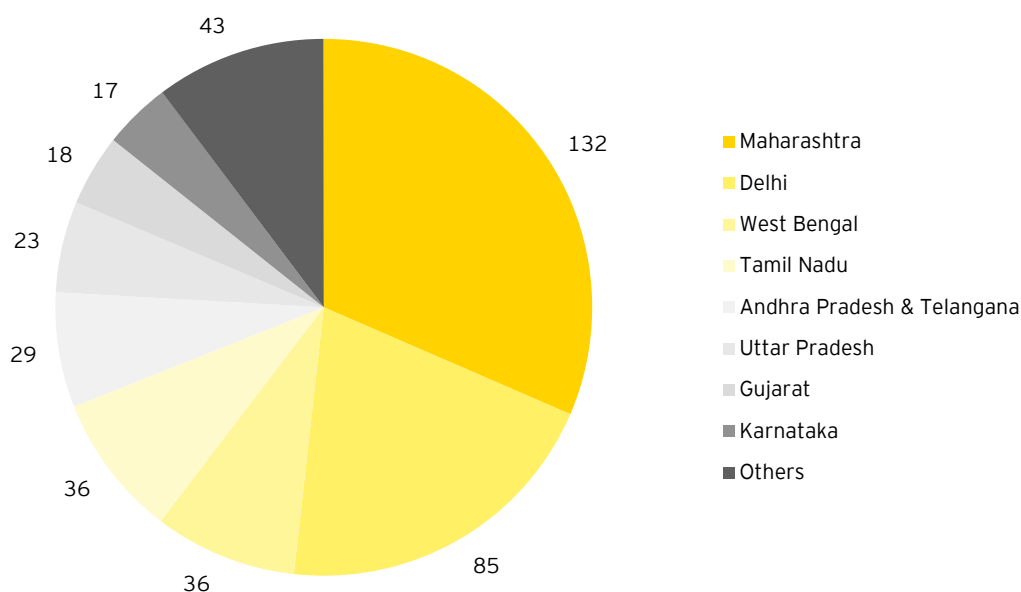
Type wise number of brokers in India



Source: IRDAI

State-wise number of brokers in India highlights concentration of brokers in more developed states. Although the penetration of brokers cannot be inferred alone based on this data, the data along with limited number of branches of most brokers and poor web presence could be considered as an indication of under-penetration by brokers. Some of the top brokers have around 8–12 offices across major cities (primarily industrial clusters) in India.

State-wise number of brokers in India in FY15



Source: IRDAI

This distribution of brokers closely resembles the distribution of commercial non-life business across India; top-5 states, which constituted 75% of total brokers (including brokers focused on retail lines) registered close to 60% of commercial non-life business in FY14.

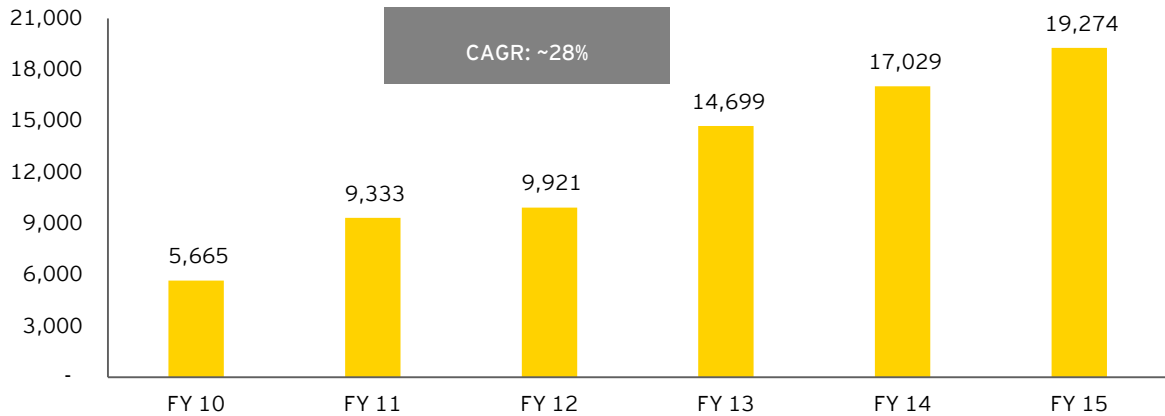
The insurance broking industry is highly fragmented with more than 350 brokers including several small-sized and medium-sized brokers. These brokers are primarily concentrated in more developed states in India.

3.2 Size and growth

Brokers constituted around 23.2% of gross direct premium in non-life and 1% of new business premium in life in FY15. In non-life insurance, the gross direct premium by brokers has grown from around INR5,700 crores in FY10 to INR19,274 crores in FY15 at a CAGR of around 28%, higher than non-life insurance CAGR of 18%. As a result, the broking channel increased its contribution as a percentage of gross direct premium from 15% in FY10 to 23.2% in FY15.

The gross direct premium for broking channel has grown from close to INR5,700 crores in FY10 to INR19,000 crores in FY15 at a CAGR of around 28%, higher than non-life insurance CAGR of 18%.

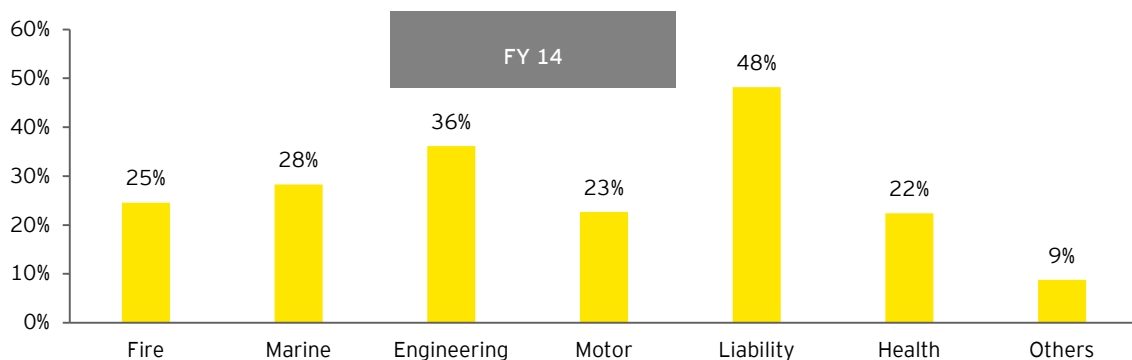
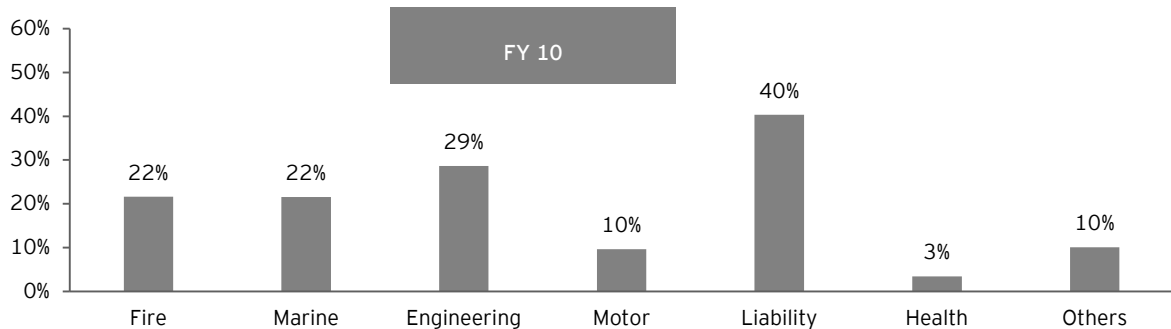
Gross direct premium by brokers in non-life in INR crores



Source: IRDAI

This increase in contribution of broking channel over the last five years is attributed to increase in penetration in motor and health lines of business. As evident, share of gross direct premium of the broking channel in motor and health increased from 10% and 3% in FY10 to 23% and 22% in FY14, respectively. The penetration of broking channel in commercial lines of business is higher as compared to retail. The penetration in retail and commercial lines was 11% and 22% in FY10, which increased to 20% and 27% in FY14.

Lines of business wise share of the broking channel

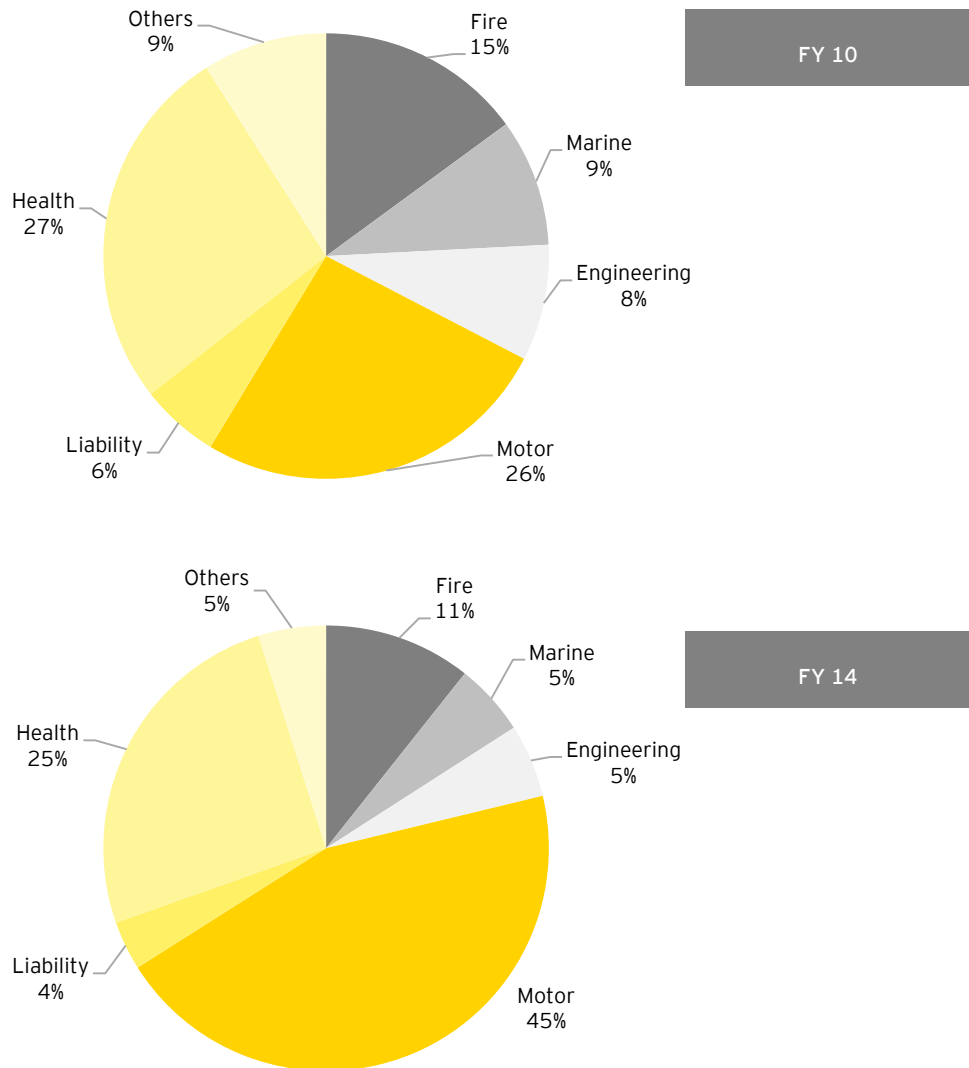


Source: IRDAI

This increase in contribution to health and motor is primarily attributed to increase in business from corporate entities across these two lines of business and to a certain extent rise of some retail-focused brokers. However, the penetration in both these lines is still low given inadequate focus of brokers on retail lines. This also highlights opportunity for some brokers to penetrate bigger and high growth lines of business.

Despite the low penetration, motor and health are two major lines of business for the broking channel due to their major contribution in overall non-life insurance premium; the contribution of these two channels has increased from 53% in FY10 to 70% of gross direct premium by brokers in FY14.

Share of lines of business in brokers' contribution of gross direct premium

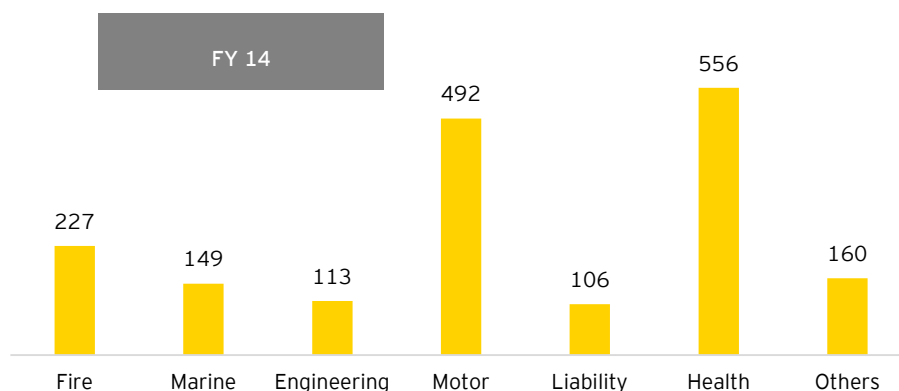


Source: IRDAI

Based on EY analysis, it is postulated that large-sized and medium-sized corporates contribute around 40%-50% of broking business, SME customers contribute around 10%-20% and retail customers contribute around 30%-40% of broking business. Major lines of business for corporate entities include commercial lines, health and employee benefits; whereas major lines of business for SMEs include fire, health, and motor. Contribution of SME segment is low since most SMEs are extremely price conscious and take insurance covers to meet demands from financiers rather than to mitigate risks.

The two biggest lines - motor and health - contributed the most in indicative total brokerage for brokers in FY14.

Major lines of business wise brokerage in non-life in FY14
Total indicative brokerage = ~INR1,800 crores



The indicative total brokerage earned by brokers in FY14 was around INR1,800 crores with motor and health comprising close to 60% of total brokerage.

3.3 Services by insurance brokers

Across major markets in the world, the nature of services provided by brokers revolves around the following:

- ▶ Understand client's business and risk management philosophy
- ▶ Provide risk management and insurance consulting
- ▶ Highlight market knowledge and insights to customers including insurance covers and terms
- ▶ Provide underwriting information and other services such as modelling to insurers
- ▶ Help customers in deciding among quotes and policies
- ▶ Help customers during servicing and claims stage
- ▶ Assist customers and insurers through various value added services

In India, these roles are performed only by some brokers. By and large, service offerings by brokers in India are limited and are listed below.

Major services provided by brokers



Source: EY analysis

Although some brokers provide other services including bespoke coverages, captive insurance management and alternate risk transfer, the number of such brokers is limited and their prevalence in India is rather nascent.

The service offerings by majority of brokers are limited and only some brokers are active in providing complete range of services as witnessed globally.

Most brokers provide these services through a direct sales force based out of the head office or their branch network. This ensures high conversion and brand visibility for brokers but is associated with high costs of expansion. Several brokers focus on tele-marketing for retail lines of business such as individual life, motor and health. Although this requires low infrastructure and provides better access to market, this approach has not delivered on quality of business and conversion ratios. The online medium has been gaining significance in retail segments; however, this is primarily a pull medium and faces strong competition directly from insurers. In addition, brokers have deployed other various media such as work-site marketing, organizing camps among others to target retail customers; these have not proven to be successful yet and are not considered a continual source of revenue for brokers.

The focus of Indian insurance brokers is on business development and to a certain extent on servicing; hence, most brokers have invested in these departments only. Attracting and retaining quality talent is a key challenge being faced by the insurance sector including broking, which impacts its overall operations. Investment, by brokers, in other support functions such as operations, finance, IT, human resources, and compliance among others is limited and only some brokers have invested in full-fledged teams across these functions.

3.4 Current status of insurance broking

Basis discussions with stakeholders, majority of brokers currently play limited role as price discoverers, while some lack professionalism and have failed to build a trust-based relationship with their customers.

Adequate representation of customers: Brokers in India appear to perform adequately in representing customers. Specifically, the corporate entities are satisfied with two important functions by brokers - price discovery and placement of risks.

According to our corporates' survey, around 87% of respondents are satisfied with brokers in terms of representing their interests to insurers. Around 90% and 75% of respondents are satisfied with price discovery and placement of risks functions of brokers, respectively.

Broking is a preferred channel for corporates: Broking is not only the most preferred source of information for insurance-related needs, but also the preferred channel for commercial lines of business, and group health lines. It appears that the adequate representation of customers has helped the broking channel to emerge as the preferred channel.

According to our corporates' survey, around 80% of respondents cited that broking channel is the most preferred source of information. When it comes to procurement, around 75% of respondents cited broking channel as primary channel for group health, fire, liability, marine and miscellaneous lines.

Role of brokers in financial inclusion: There are some brokers in India who focus on underserved segments across rural and semi-urban markets. For instance, one of the large brokers focused on retail lines of business is expected to double its reach to around two and a half lakh villages in the next four years. Similarly, there are many brokers which actively serve the insurance needs of small and medium business clients in these markets. Such actions for financial inclusion also help in increasing insurance penetration.

Limited role of brokers: Insurance broking in India with respect to operating model and service offerings is still at an emerging stage. Beyond a select few large and organized brokers, most brokers offer limited range of services and some fail to demonstrate value addition. Brokers need to scale up to represent customers fully across three major services - price discovery and advisory.

In India, majority of brokers are considered as price discoverers. Their value addition is limited to the extent they provide competitive pricing to customers.

Large-sized and some medium-sized brokers have adopted an active advisory role for their clients. These brokers not only leverage the immense knowledge of their top management and global network but also focus on developing the talent at middle management level. Currently, the advisory services appear to be geared more toward risk management, with a significant scope of improvement in the breadth of advisory services. However, it is yet to be tested whether the customers will be willing to pay any remuneration for these services or will expect these services as a part of the price discovery and placement process.

Limited industry expertise: Majority of brokers act as price discoverers and not as a preferred source of highlighting risks and implications. This is due to limited industry expertise and is reflected in the way majority of brokers have structured their operating model on lines of business wise rather than on industry expertise.

According to our brokers' survey, more than 80% of respondents cited that professionalism is an important parameter for the growth of the broking industry.

In addition, according to discussions, corporate entities expect more professionalism from brokers rather than engaging in aggressive price under-cutting to garner business.

Lack of differentiation: Large corporate entities often value brokers due to their role as advisors; however, mid-sized corporate entities, the SME segment, individual businesses and customers may view brokers as a channel not distinct from other channels. This is attributed to multiple factors including price competitiveness by some brokers, and lack of clarity on the unique role of brokers in representing customers as distinct from other intermediaries.

According to our brokers' survey, less than 10% of brokers cited that corporates value industry knowledge while buying insurance. This is in stark contrast with the finding from our corporates' survey – 45% corporates cited that brokers need to focus on industry knowledge.

Limited focus on retaining customers: Even though brokers attempt to manage relationship through varied means, the relentless focus on retaining customers is observed by only some of the brokers. For these brokers, retaining client is of utmost priority irrespective of relationship with insurers. In addition, brokers have played a limited role in understanding the risk profile of customers, identifying specific risks and working with insurers and the regulator to develop innovative products for the same.

Role of small brokers: Role of many small brokers in India is limited to mostly price discovery. Although some brokers have started finding their niche in the market such as focus on online distribution, focus on specific line of business or specific sub-segment, small brokers have to focus on various areas such as product knowledge to compete with medium-sized and large brokers.

Varying relationship with insurers: Several insurers in India think that there is immense scope for the broking channel in India to evolve further to be able to justify their role in the value chain. The current services being offered by many brokers restrict them to being mere price discoverers. This has prevented the relationship of insurers and brokers from maturing from a transactional relationship to a partnership.

According to our insurers' survey, more than 50% of insurers cited that they have weak relationship with all types of brokers.

3.5 Challenges in insurance broking posed by external environment

The insurance broking industry grapples with multitudes of challenges including high fragmentation, inadequate penetration due to low level of risk appreciation, lack of product innovation, and evolving regulatory landscape.

High fragmentation: Low entry barriers have resulted in entry by a number of small brokers over the last ten years. This has resulted in a varying level of professionalism demonstrated and services delivered by brokers. This could be a potential cause of other concern areas including quality of business, and low levels of customer retention.

Inadequate penetration: Geographical analysis of brokers highlights concentration of brokers in major states and cities preferably in industrial areas implying low penetration in other areas. This is more severe for semi-urban and rural retail segment and SME segment.

Lack of focus of some major brokers on retail customers, geographical constraints, still evolving non-traditional platforms such as mobile and internet, and restrictions on sub-broking are reasons for under-penetration in the retail segment.

Even the SME segment in India could be classified as under penetrated. Poor perception of risks, and mindset of considering insurance as last line of defense by the SME segment along with brokers' high costs operating model have resulted into under-penetration in the segment.

Lack of product innovation: Brokers are best suited in a market where there are multiple products with varying coverages and numerous suppliers. The Indian market is still at a nascent stage in terms of products in non-life; the market comprises largely identical products, with price as the key differentiator, thereby limiting the potential role of brokers.

According to our surveys, more than 75% of brokers and 40% of corporates cited that insurers have demonstrated weak performance in product innovation.

Regulatory requirements: The broking channel has been evolving with dynamic regulatory landscape (directly and indirectly impacting the broking channel) thereby, impacting operating model and compliance requirements among others.

According to our brokers' survey, the top-three regulatory challenges cited are stringent license renewal process, decreasing remuneration to brokers, and lack of clarity on the role of different channels.

Lack of clarity on role and competition from other channels: With recent regulations on corporate agents allowing them to sell policies of more than one insurer with sum assured limit of INR5 crores, the role of the brokers appears to be marginalized. The move is expected to result into more competition for garnering business from retail customers. In the commercial segment, brokers have been facing competitive pressures from direct channel of insurers as the insurers have not embraced broking substantially.

3.6 Outlook of insurance broking

Focus on servicing: Given competitive pressures and increasing customer demands, brokers will start focusing immensely on servicing and retention of customers. This will entail not only changing KPIs of staff from sales to servicing but also a paradigm shift in the way brokers operate.

According to our corporates' survey, the most important reason to switch brokers could be "poor servicing by brokers" – mentioned by close to 80% of respondents.

Expansion in range of services: Brokers will play an increased role in overall value chain of their customers. They are likely to start focusing on not only understanding financial profile of customers but also providing services across a broad spectrum including end-to-end risk management, advisory services such as claims consulting, employee benefits consulting etc., and customized services such as analytics and bespoke coverages.

According to our corporates' survey, around 50% of corporates are willing to avail comprehensive risk management services, bespoke coverages and analytics services from brokers in the next five years.

Consolidation: The insurance broking industry in India is fragmented with several small-sized and medium-sized brokers. The consolidation wave is expected to hit the market in the medium term. Brokers with good book of business may get acquired while brokers who have not focused on quality or who do not provide value addition to clients may find it difficult to survive in the long term.

Segmentation: Segmentation of brokers is expected to be evolved primarily due to increasing consumer demands. This segmentation could be in terms of size of customers being served, or specific lines of business or niche areas.

Some of the brokers may choose to become specialist with increasing risk awareness, competitive pressures and increasing customer demands. These brokers are likely to find customer acquisition easy by demonstrating their considerable knowledge in the specific areas.

The niche segmentation will primarily be applicable to small brokers; these brokers will have to demonstrate value addition to make their business relevant. Even today, there are small brokers who focus on only credit

insurance, event management insurance, insurance of cranes among others. This niche segmentation is expected to grow further.

3.7 Regulatory framework

3.7.1 The past

In addition to regulations and guidelines impacting the insurance industry as a whole, the regulator released the IRDAI (Insurance Brokers) Regulations, 2013. Highlights of these regulations include:

- ▶ Insurance sales through modes:
 - ▶ **Online:** Brokers are now permitted to sell products online after entering an agreement with insurers. However, brokers need to link their websites to insurers' websites and sales need to be executed through websites of insurers.
 - ▶ **Tele-marketing:** Brokers are permitted to use the tele-marketing mode to sell policies. However, the tele-marketer cannot be engaged by insurers or any insurance-related entity and is required to follow specified guidelines for distance marketing and TRAI guidelines as applicable.
- ▶ **Claim consultancy:** The regulator permitted limited claim consultancy by brokers for claims not exceeding INR1 crore (policy not placed by any broker). The broker will need customer's permission and they may charge a fee for providing this service.
- ▶ **Ceiling on business from single client:** Business from a single client is capped at 50% of premiums in any financial year. This is in contrast to the regulations earlier – 50% ceiling in the first year, 40% ceiling in the second year and 30% ceiling in the third year.
- ▶ **Transparency:**
 - ▶ **Financial statements and certificates:** Brokers need to submit half-yearly financial statements and certificates as earlier with additional certificates on professional indemnity, remunerations according to limits among others.
 - ▶ **Internal control:** The regulator mandated the requirement of a Compliance Officer for brokers whose business is more than INR10 crores of premium in a year.
 - ▶ **Disclosures:** The regulator mandated prior approval for additional changes including change in key positions of brokers, opening or closing of branch offices, acquiring immovable property among others.
- ▶ The regulator has made renewal process more stringent with suspension of license if renewal application is not filed within 60 days of expiry.
- ▶ The regulator permitted co-broking in the insurance industry. However, it has maintained the same capital requirements as before, along with other elements of regulations such as application process, consideration for application and role of brokers.

Although there have not been any major changes in regulations, the direction of the regulations is on flexibility in terms of operating model, and enhanced transparency. Limited changes in the regulations appear to be delayed and do not give brokers a free hand to operate modes such as online and or provide other services such as claim consultancy.

3.7.2 The present

Although there have not been any major regulations affecting brokers directly in the last year, the major regulations and guidelines impacting brokers indirectly include:

Relaxed FDI limits: The hike in FDI limits from 26% to 49% and improved investor confidence, has led to many global insurers considering an increased stake in the growing, under penetrated Indian insurance market. As these regulations are applicable for brokers as well, one can expect capital investment in brokers, which will enable them to penetrate deeper (especially in SME segment) and invest in technologically led initiatives.

Corporate agents to sell policies of many insurers: New regulations allow corporate agents to sell policies of at most three life insurers, three non-life insurers and three health insurers. This could lead to increased choice for

their customers. However, to take advantage, corporate agents need to make significant investments in training staff, advanced IT platforms and servicing.

Impact on broking community:

- ▶ Brokers may face more competition from corporate agents in retail lines of business since customers may find it difficult to distinguish between brokers and corporate agents.
- ▶ The cap of INR5 crores sum assured per risk in commercial lines of business for corporate agents may not impact broking community though.

The role of the broking channel is unique, since it is the only channel, which represents customers and not insurers. This distinction has been maintained for more than a decade and has worked well in protecting customers' interests. However, recent regulations – allowing corporate agents and other intermediaries to tie-up with multiple insurers – seem to have caused confusion for customers.

Introducing IMFs as a new distribution channel: The regulator recently finalized the guidelines for IMFs, which will be allowed to solicit and sell products of two life insurers, two non-life insurers and two health insurers as well as other financial products.

The reduced capital requirement for establishing an IMF, combined with the fact that it can be a one-stop shop for all of the customer's financial needs, makes it a lucrative choice for independent financial advisors and certified financial planners. For insurers, IMFs can be an effective distribution channel to help increase the footprint in untapped segments without significant capital drain. However, at the time of initial grant of registration, the IMFs are permitted to set up offices in only one district. They can apply for more areas during renewal of registration.

Impact on broking community:

- ▶ Similar to corporate agents selling policies of more than one insurer, this new development may dilute the role of brokers in the medium term.
- ▶ However, the new channel will impact only the retail lines of business of brokers as IMFs are allowed to sell only retail products.

3.7.3 The future

The direction of changes across channels (including broking channel) appears to be serving interests of customers, tighten business practices of channels and bring in more flexibility in the system.

Going forward, the broking community is expected to witness tightening disclosure and compliance requirements, and more flexibility and openness in brokerages.

In line with this, the broking space is expected to witness more changes specially around:

- ▶ Tightening compliance requirements and increased number of audits
- ▶ Steps to ensure more professionalism and disclosures
- ▶ More flexibility and openness in brokerages

However, it cannot be denied that broking channel is significant in serving objectives of IRDAI and a conducive, continual and certain environment must be ensured to make broking a preferred channel in line with major global markets. In view of this, this report highlights imperatives for IRDAI to protect and enable growth of the insurance broking industry in India.

A person wearing a blue and yellow plaid shirt and a dark jacket is walking. They are carrying a brown paper shopping bag with a pink interior and a white logo. The background is blurred, suggesting motion.

4

Voice of the customer

4 Voice of the customer

To understand evolving customer trends, role of broking, relationship among stakeholders, and expectations going forward, different online surveys were floated to corporate entities, individual customers, brokers and insurers for their feedback.

This section highlights key findings from analysis of these surveys with total respondents close to 200 across surveys. Respondents had the option of selecting more than 1 option for some of the survey questions so that desired responses by stakeholders are not limited.

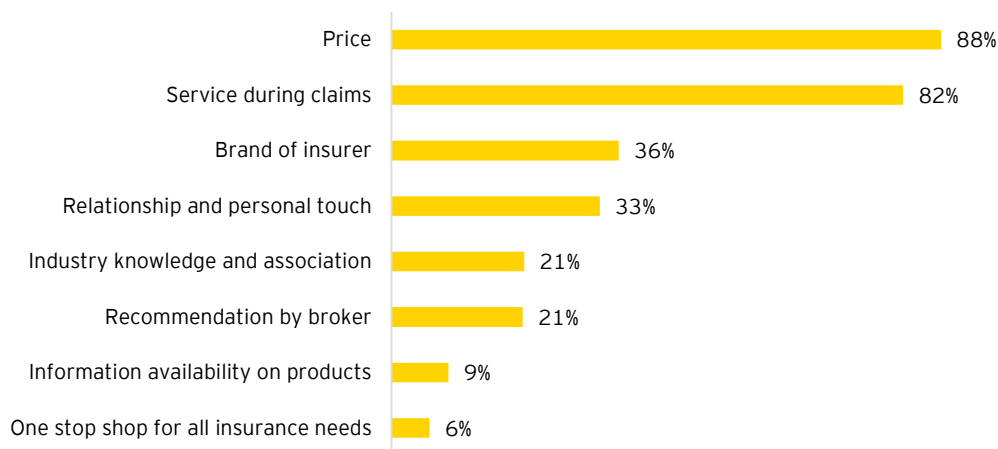
4.1 Key findings from survey of corporate customers

Finding 1: When it comes to selecting an insurer, corporate entities value pricing and servicing the most; they believe that insurers have performed strongly in these two parameters but need to work on product innovation

Corporate entities consider pricing and servicing as the two most important aspects while selecting an insurer for risk placement needs. Broker's recommendation about an insurer did not come as a significant factor for corporate entities.

- ▶ More than 80% of corporate entities cited that they consider price and service as the most important aspects while selecting an insurer.
- ▶ Only 21% of corporate entities cited that they consider "recommendation by broker" as a significant aspect.

Aspects considered by corporate customers while selecting an insurer



Source: IBAI survey of corporates

In case of price discovery and service, the corporate entities believe that insurers have demonstrated strong performance. However, they believe that insurers have demonstrated weak performance in terms of product innovation.

- ▶ More than 80% of corporate entities believe that insurers have demonstrated a strong performance in pricing of products and servicing capabilities.
- ▶ About 46% of corporate entities believe that insurers have demonstrated weak performance in terms of product innovation.

Finding 2: When it comes to selecting a channel, corporate entities consider industry knowledge as an important aspect apart from pricing and servicing. These aspects make broking channel as their preferred channel for information and procurement of insurance

Apart from pricing and servicing, industry knowledge emerged out as an important aspect to select a channel.

- ▶ 82% of corporate entities cited that they consider service as an important aspect while selecting a channel.
- ▶ 58% of corporate entities cited that they consider price as an important aspect while selecting a channel.
- ▶ 45% of corporate entities cited that they consider industry knowledge as an important aspect while selecting a channel.

In view of these parameters, not only broking emerged out as their preferred source of information but also as their preferred channel for procuring insurance needs.

- ▶ 79% of corporate entities chose broking as their preferred source of information with second-most important source being insurer with 18% of corporate entities preferring it.
- ▶ Around 75% of corporate entities cited that they procure group health, marine (hull and cargo), fire, liability and engineering related insurance covers from broking channel.

Finding 3: More corporate entities are satisfied with large brokers as compared to medium and small brokers; this could be attributed to their product knowledge and a range of services by large brokers

In terms of overall satisfaction levels, more corporate entities are satisfied with large brokers:

- ▶ 77% of corporate entities cited that they are satisfied with large brokers.
- ▶ 50% of corporate entities cited that they are satisfied with medium and small brokers.

The high satisfaction level could be attributed to better product knowledge, and risk management services provided by large brokers. Incidentally, when it comes to trustworthy relationship, medium and small brokers actually have a marginal lead over large brokers.

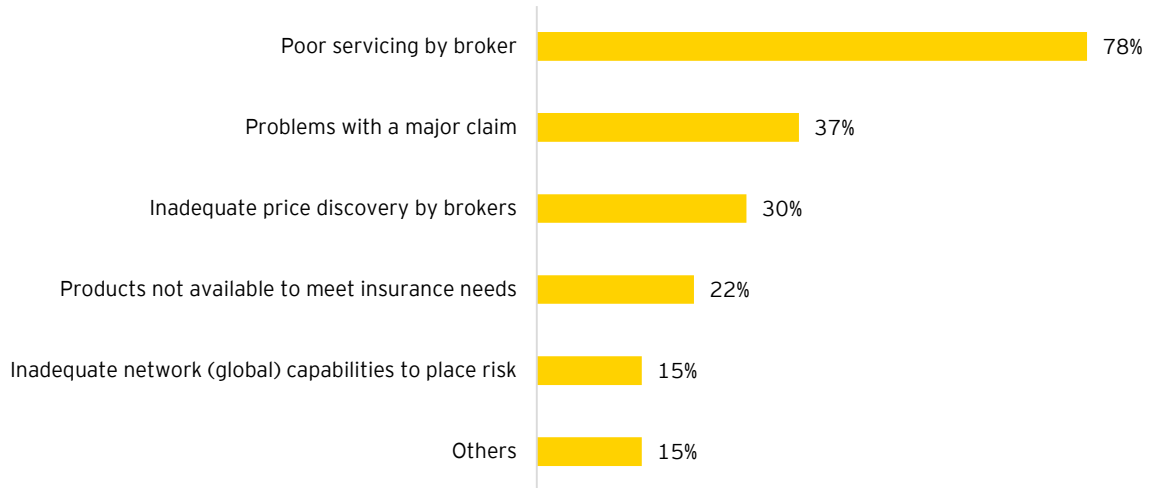
Parameters	% of respondents satisfied	
	Large brokers	Medium and small brokers
Relationship and trust	90%	92%
Price discovery	78%	64%
Representation of customers	70%	57%
Servicing including claims	63%	64%
Risk management services	80%	33%
Product knowledge	87%	46%
Information availability	84%	60%

Finding 4: Corporate entities are more likely to switch brokers due to poor servicing; they not only expect seamless servicing but also comprehensive need analysis

The most-important reason cited by corporate entities to switch brokers is poor servicing:

- ▶ 78% of corporate entities cited that they could switch brokers due to poor servicing by brokers.
- ▶ 37% of corporate entities cited that they could switch brokers due to problems with a major claim.

Corporate entities' major reasons for switching brokers



Source: IBAI survey of corporates

The above reason for switching brokers is also reflected through another question on corporate entities' expectations from brokers

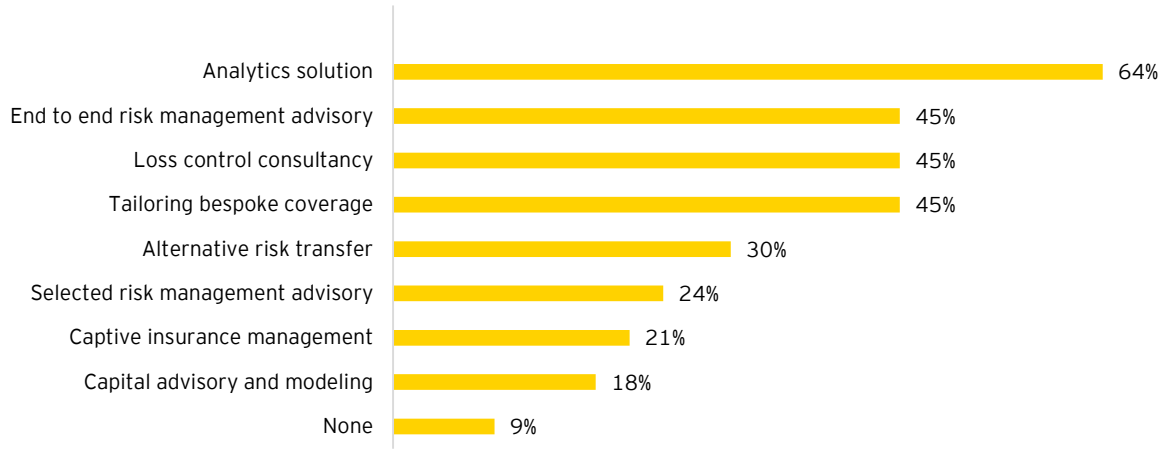
- ▶ 58% of corporate entities cited that brokers can help them more effectively and efficiently by providing assistance during servicing and claims process.
- ▶ 55% of corporate entities cited that brokers can help them more effectively and efficiently by providing need analysis and pitching the right product.

Finding 5: Although corporate entities expect brokers to provide varied value added services, they are not willing to pay fixed fee for these services

Corporate entities expect brokers to provide a range of value added services in the next 5 years:

- ▶ 64% of corporate entities cited that they are willing to avail analytics solution from brokers.
- ▶ 45% of corporate entities cited that they are willing to avail end-to-end risk management advisory service from brokers.

Corporate entities' expectations of value-added services from brokers



Source: IBAI survey of corporates

However, most of the corporate entities are not willing to pay additional fee for these value-added services.

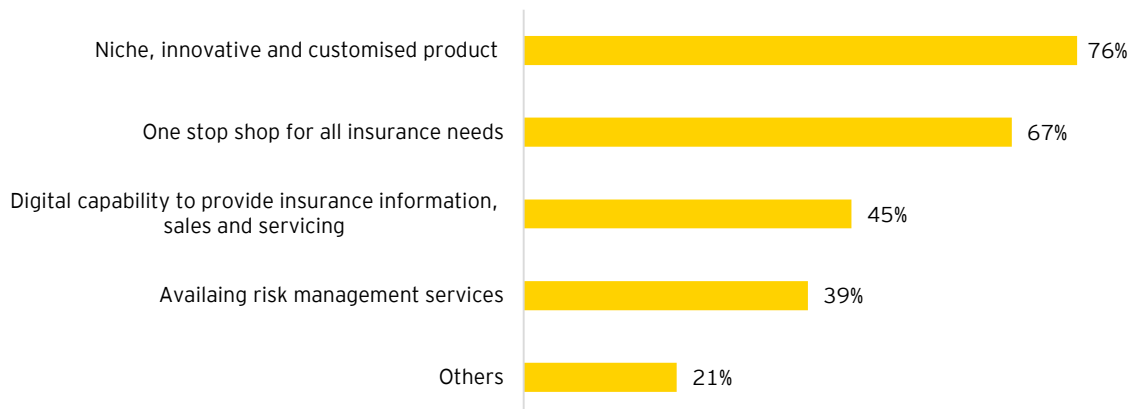
- ▶ Only 3% of corporate entities cited that they are willing to pay fixed fee to brokers.
- ▶ About 45% of corporate entities cited that they are willing to pay fixed fee as remuneration instead of brokerage.

Finding 6: Corporate customers view product innovation and one stop shop as significant customer trends emerging in the medium term

In terms of emerging customer trends, corporate entities believe that niche, innovative and customized products will emerge:

- ▶ 76% of corporate entities chose niche, innovative and customized product development as the most important customer trend.
- ▶ 67% of corporate entities chose one-stop shop to meet all insurance needs as the second-most important customer trend.

Trends in customer demands in the next 5 years



Source: IBAI survey of corporates

In terms of product innovation, corporate entities believe that both insurers and brokers have an increased role to play; 46% of corporate entities cited that insurers have shown weak performance in product innovation and 36% of corporate entities cited that brokers need to push insurers for niche, innovative and customized products.

In terms of one-stop shop, corporate entities even today deal only with a limited number of brokers; 64% of corporate entities deal with a single broker and around 23% of corporate entities deal with two or three brokers.

4.2 Key findings from survey of retail customers

Finding 1: Though agency emerged out as the most common channel for retail customers, the channel does not score high when it comes to customer satisfaction; the satisfaction level is in stark contrast with those of web-aggregators

Among individual respondents, 75% of customers have bought traditional life insurance and around 35% of customers have bought motor and health policies. Agency has emerged as the most common channel, with 68% of respondents, for buying policies followed by web-aggregators with 35% of respondents.

The nature of channels, agency being push based and representing one insurer and web-aggregators being pull-based and representing more than one insurer, appears to have a significant impact on satisfaction levels:

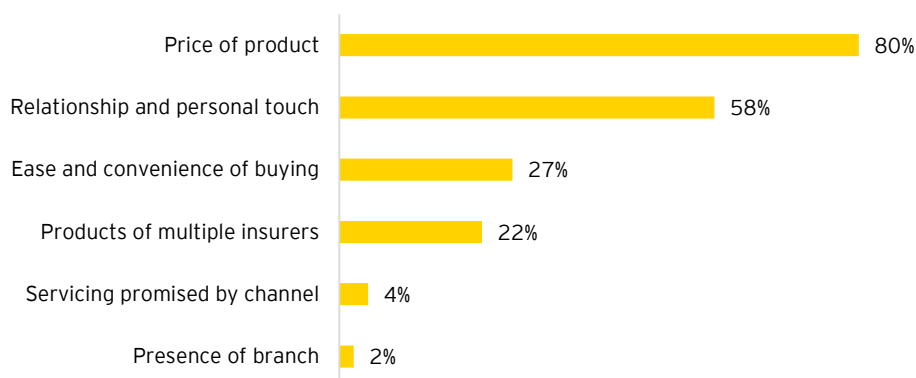
- ▶ Only 44% of retail customers cited that they are satisfied with their experience with agency.
- ▶ However, 86% of retail customers cited that they are satisfied with their experience with web-aggregators.

Finding 2: In response to important factors for selecting channel, pricing of product by the channel emerged as the most important factor followed by relationship with intermediary

Pricing of product and relationship with intermediary emerged as most important factors for selecting a channel:

- ▶ 80% of retail customers chose pricing as their most important factor for buying insurance
- ▶ 56% of retail customers chose relationship with intermediary as their most important factor for buying insurance

Top reasons for selecting a particular channel over other channels



Source: IBAI survey of individual customers

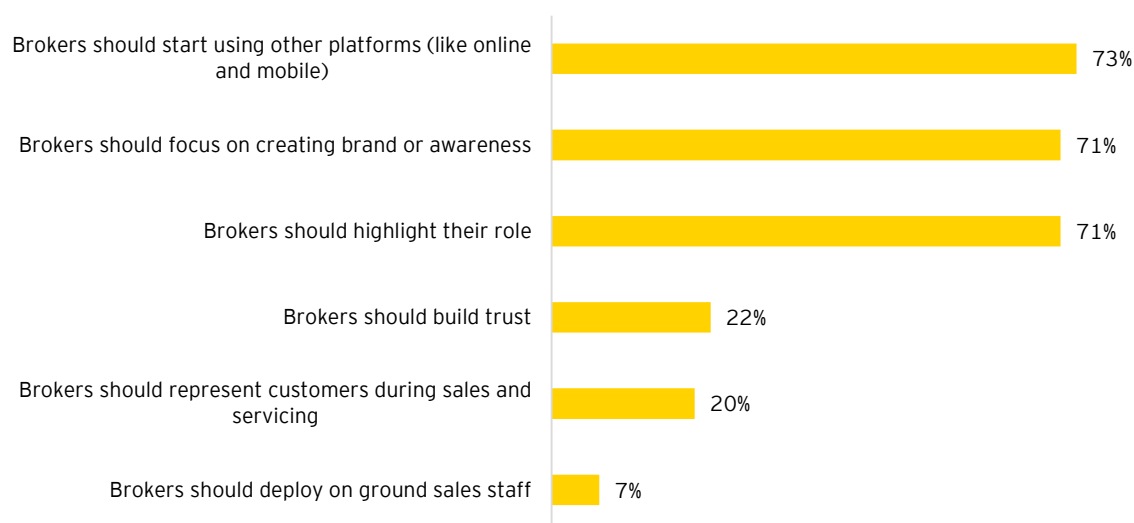
Finding 3: Most retail customers are not aware about broking channel being a distinct channel and about its roles; the customers believe that brokers need to create awareness, highlight their roles and start using other platforms

There appears to be inadequate awareness among retail customers about broking channel:

- ▶ 65% of retail customers are not aware about broking channel being distinct from other channels.
- ▶ 58% of retail customers are not aware about the role of brokers in the insurance industry.

These customers believe that brokers need to create awareness, highlight their roles and start using platforms such as mobile and web.

Ways in which brokers can help individual customers



Source: IBAI survey of individual customers

4.3 Key findings from survey of brokers

Finding 1: Though brokers are confident about their internal capabilities, they are apprehensive about the regulatory outlook and insurers not delivering on product innovation

Brokers are confident about their business:

- ▶ 60% of brokers believe that they will grow at a CAGR of more than 20% in the next five years.
- ▶ 35% of brokers believe that they will grow at a CAGR of more than 40% in the next five years.

However, they are concerned about dynamic regulatory landscape and product innovation in the industry.

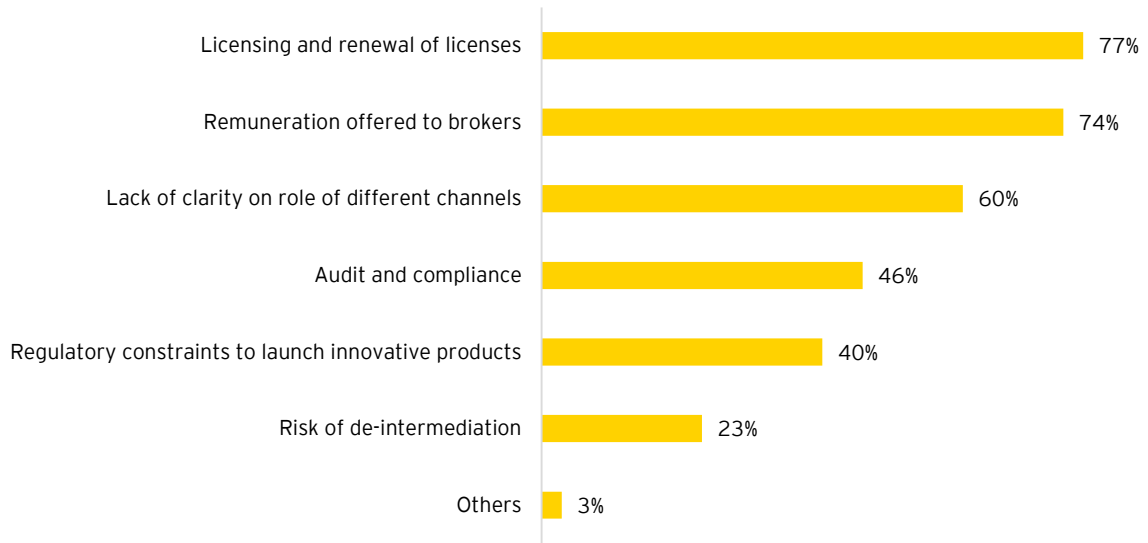
Brokers are divided over support by IRDAI with 50% of brokers citing IRDAI has not been supportive. In terms of outlook, 75% of brokers cited regulatory outlook as the most important concern area. Specifically:

- ▶ Uncertainty over renewal licensing and remuneration offered to brokers are two most important regulatory concerns with around 75% of brokers citing these.
- ▶ Lack of clarity on role of various channels emerged as another significant concern with 60% of brokers citing this.

In addition, brokers are concerned about product innovation and servicing capabilities of insurers in the industry:

- ▶ 66% of brokers feel insurers have shown weak performance in servicing capabilities.
- ▶ 77% of brokers feel insurers have shown weak performance in product innovation.

Regulatory concern areas of brokers



Source: IBAI survey of brokers

Finding 2: Though brokers understand what customers value the most, there is some incoherence between what customers expect and what brokers think customers expect

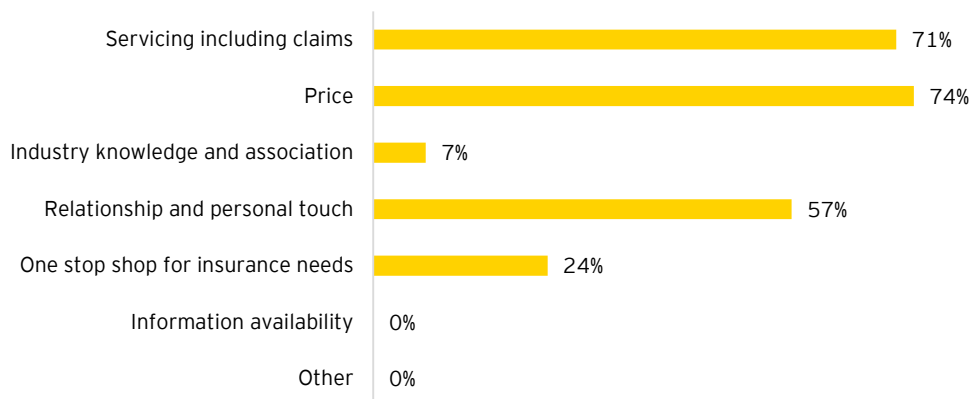
Brokers understand that customers value product pricing and servicing provided by brokers; this is also corroborated by customers through their survey:

- ▶ 74% of brokers believe customers value price discovery provided by brokers; this is reflected in customers' survey with 58% of customers valuing price discovery
- ▶ 71% of brokers believe customers value servicing provided by brokers; this is reflected in customers' survey with 82% of customers valuing servicing by brokers

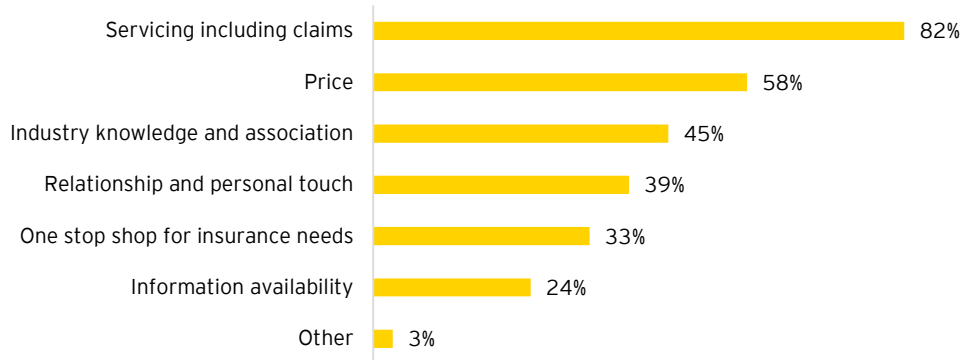
However, there is mis-match of expectations on industry knowledge between brokers and customers:

- ▶ Only around 7% of brokers cited importance of industry knowledge to their customers; this is in stark contrast with 45% of customers citing importance of industry knowledge that they expect from their brokers

What brokers think customers expect



What customers actually expect



Source: IBAI survey of brokers

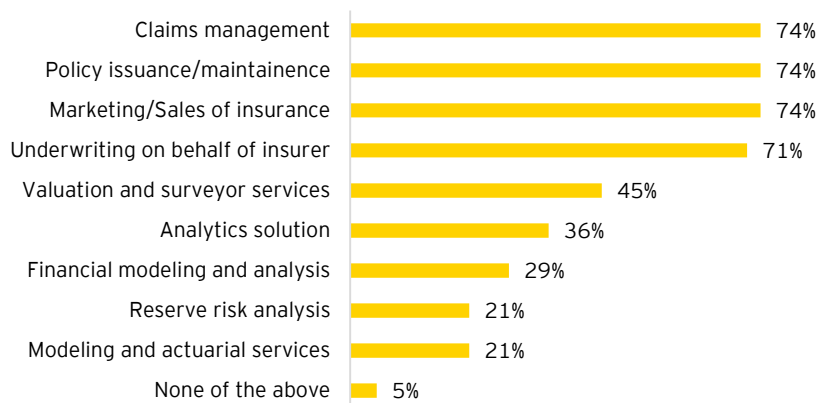
Finding 3: There is incoherence between what brokers think about insurers' expectations and what insurers actually expect from brokers in the next five years

In terms of expectations around range of services, there is a contrast on claims administration, valuation and surveyor services and underwriting:

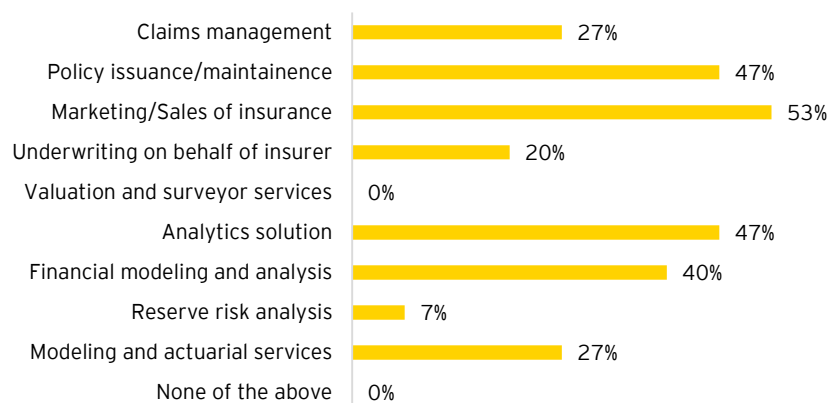
- ▶ 74% of brokers cited insurers will expect brokers to provide claims administration; however, only 27% of insurers have cited the need for this.
- ▶ 71% of brokers cited insurers will expect brokers to provide underwriting services; however, only 20% of insurers have cited the need for this.
- ▶ 45% of brokers cited insurer will expect brokers to provide valuation and surveyor services; however, no insurer has cited the need for this.

This perhaps reflects that insurers need to have more confidence on brokers' ability to provide these additional services, which brokers are willing to provide.

What brokers think insurers expect



What insurers really expect



Source: IBAI survey of brokers

Finding 4: Although brokers themselves believe professionalism is important, they expect IBAI, IRDAI and insurers to play their part for the growth of broking industry

- ▶ Imperative for brokers for the growth of broking industry
 - ▶ 80% of brokers feel that professionalism in the industry is an important parameter for the growth of the broking industry.
- ▶ Brokers' expectations from IBAI
 - ▶ 71% of brokers expect IBAI's support in spreading awareness among customers on role and benefits.
- ▶ Brokers' expectations from IRDAI
 - ▶ 75% of brokers expect assurance from IRDAI on continuity of the broking channel.
- ▶ Brokers' expectations from insurers
 - ▶ 50% of brokers believe that insurers should focus on designing innovative products.

4.4 Key findings from survey of insurers

Finding 1: Broking and direct channels are the most preferred channels for insurers for commercial lines of business with more insurers choosing broking over direct channel

Increased number of insurers have selected broking channel over direct channel:

- ▶ 79% of insurers chose broking channel as one of their preferred channels.
- ▶ 64% of insurers chose direct channel as one of their preferred channels.

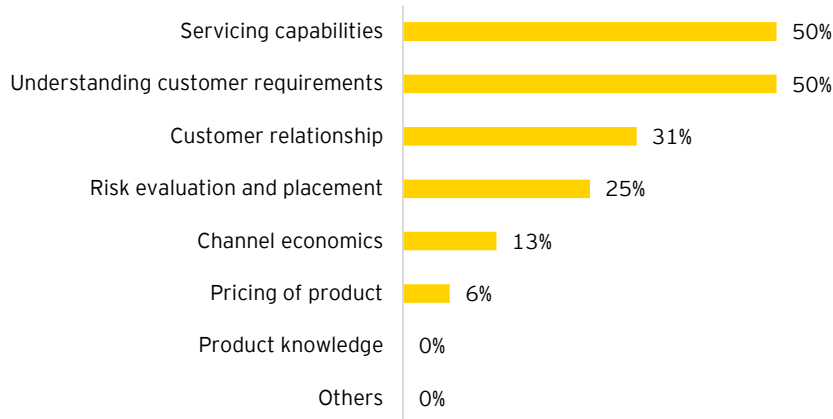
The preference for broking channel is high due to better understanding of customer requirements and servicing capabilities of brokers

- ▶ 50% of insurers cited that they prefer brokers for their capabilities in servicing and understanding of customer requirements.

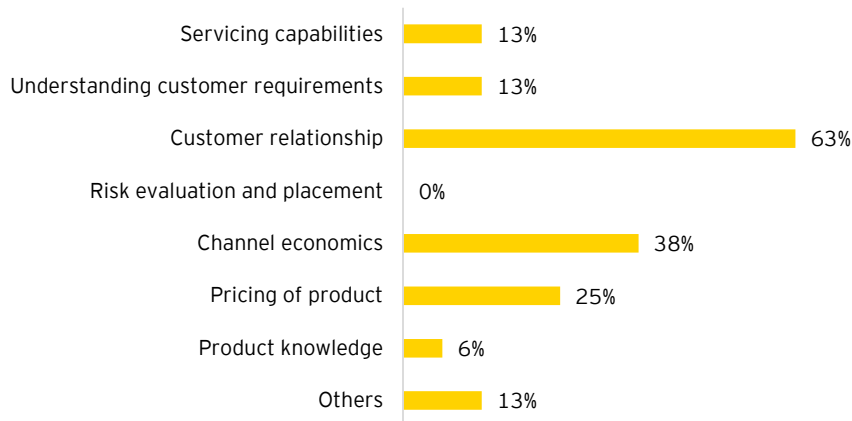
However, the preference for direct channel is due to relationship with customers and may not be due to channel economics

- ▶ 63% of insurers cited that they prefer direct channel due to enhanced relationship with customers.
- ▶ Only 38% of insurers chose channel economics as their reason for preferring direct channel.

Reasons for choosing brokers over other channels



Reasons for choosing other channels over brokers



Source: IBAI survey of insurers

Finding 2: Increased number of insurers share better relationship with large brokers as compared with others; they believe large brokers have shown weak performance in offering a range of services and medium and small brokers have shown weak performance in product knowledge and servicing capabilities

Increased number of insurers share strong relationship with large brokers as compared to medium and small brokers:

- ▶ 44% of insurers cited that they share a strong relationship with large brokers.
- ▶ 38% of insurers cited that they share a strong relationship with medium and small brokers.

According to insurers, large brokers have demonstrated strong performance in servicing and product knowledge and weak performance in offering a range of services

- ▶ 94% of insurers cited that large brokers have demonstrated weak performance in offering customers a wide range of services.

According to insurers, medium and small brokers have demonstrated strong performance in price discovery and weak performance in product knowledge and servicing capabilities

- ▶ More than 90% of insurers cited that these brokers have demonstrated weak performance in terms of product knowledge and information availability.
- ▶ More than 80% of insurers cited that these brokers have demonstrated weak performance in terms of servicing capabilities.

Finding 3: Insurers believe that lack of professionalism is constraining growth of the broking industry; in addition, they believe product reforms are essential for its growth

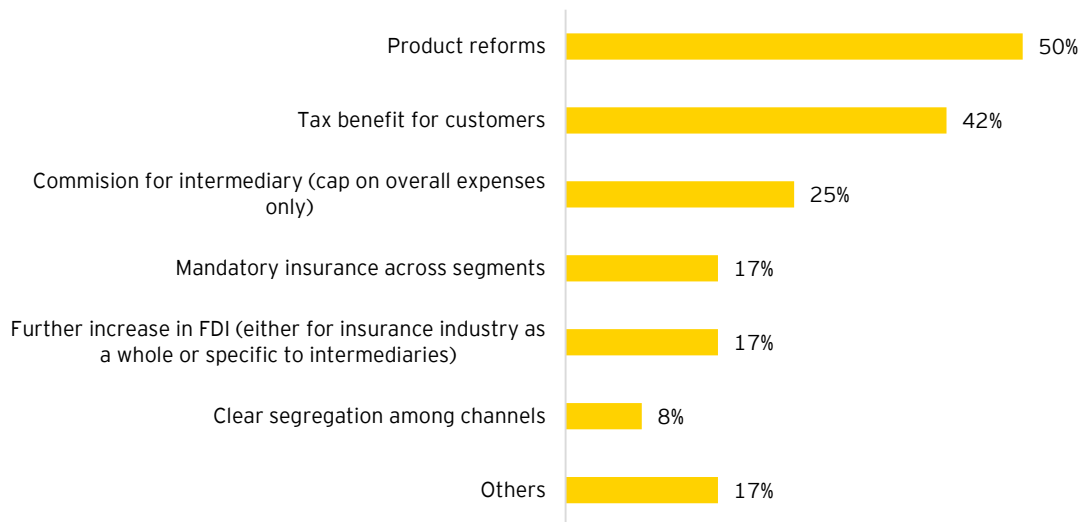
According to insurers, lack of professionalism on part of brokers emerged out as the most important constraint for the growth of the broking industry

- ▶ 92% of insurers cited lack of professionalism as the most significant factor constraining the growth of broking industry.
- ▶ 58% of insurers cited limited service offerings as another significant factor.

Insurers also believe that the regulator should look at product reforms as they see requirement for more products as one of the most important customer trends in the medium term

- ▶ 50% of insurers cited product reforms by IRDAI as single-most important factor for the growth of the industry.
- ▶ 67% of insurers cited niche, innovative and customized product development is an important customer trend.

Expectations of insurers on regulatory landscape to enable insurance industry growth



Source: IBAI survey of insurers



5

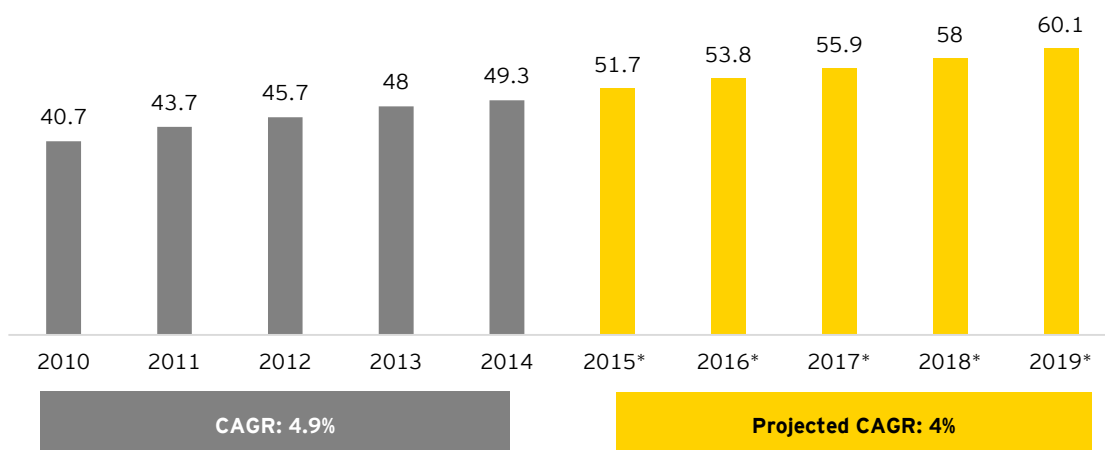
Global broking landscape

5 Global broking landscape

5.1 Market size

The global insurance broking market is valued, based on total revenue of insurance and reinsurance brokerage firms from insurance brokerage, consulting and related services. In 2014, the insurance broking market was around US\$49.3 billion and witnessed a CAGR of close to 5% from 2010 to 2014. This is expected to reach around US\$60 billion with a CAGR of 4% from 2015 to 2019.

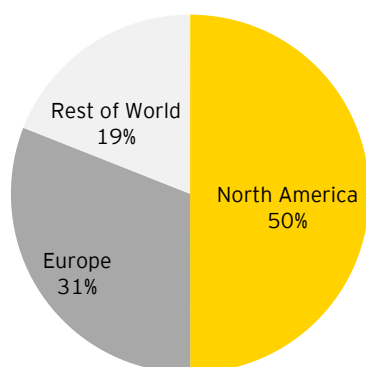
Global insurance broking market size (US\$ billion)



Source: Marketline

Brokers in North America and Europe contributed around 50% and 31% of total revenue in 2014, respectively.

Global insurance broking market by geographical segmentation (2014)



5.2 Top brokers and competitive scenario

The top-10 brokers in the world contribute around 80% of total revenue. These brokers are primarily focused on corporate entities rather than on individual customers. Most of these brokers provide end-to-end services across industries in major countries.

Top-10 global brokers' revenue

Rank	Broker	2014 revenue (USD mn)	Employee strength	Percentage of revenue								Presence in India
				Commercial	Wholesale	Reinsurance	Personal lines	Employee benefits	Services	Investments	Other	
1	Marsh & McLennan	12,966	57,000	44.4%	-	8.9%	-	33.5%	13.2%	0.4%	0.3%	✓
2	Aon	12,019	69,000	43.7%	-	12.2%	-	22.2%	21.6%	0.2%	0.3%	✓
3	Willis Group	3,767	18,500	50.6%	4.7%	22.6%	2.7%	15.2%	3.2%	0.4%	0.5%	✓
4	Arthur J. Gallagher	3,530	20,240	33.4%	9.8%	-	4.2%	14.5%	14.3%	23.7%	-	✗
5	Jardine Lloyd Thomson	1,714	5,475	36.2%	6.8%	21.8%	2.1%	25.7%	6.8%	0.5%	-	✓
6	BB&T	1,713	6,168	39.0%	41.3%	-	5.5%	9.9%	-	0.7%	3.7%	✗
7	Brown & Brown	1,567	7,591	54.8%	13.9%	0.9%	5.5%	15.7%	8.7%	0.1%	0.5%	✗
8	Wells Fargo	1,299	5,419	39.0%	0.1%	-	13.2%	14.9%	16.5%	0.3%	16.0%	✗
9	Hub International	1,296	7,838	55.2%	5.6%	-	18.0%	20.3%	0.8%	0.2%	-	✗
10	Lockton Cos	1,230	5,600	64.1%	3.0%	3.5%	0.7%	28.0%	-	0.8%	-	✗

Source: Business Insurance, IRDAI

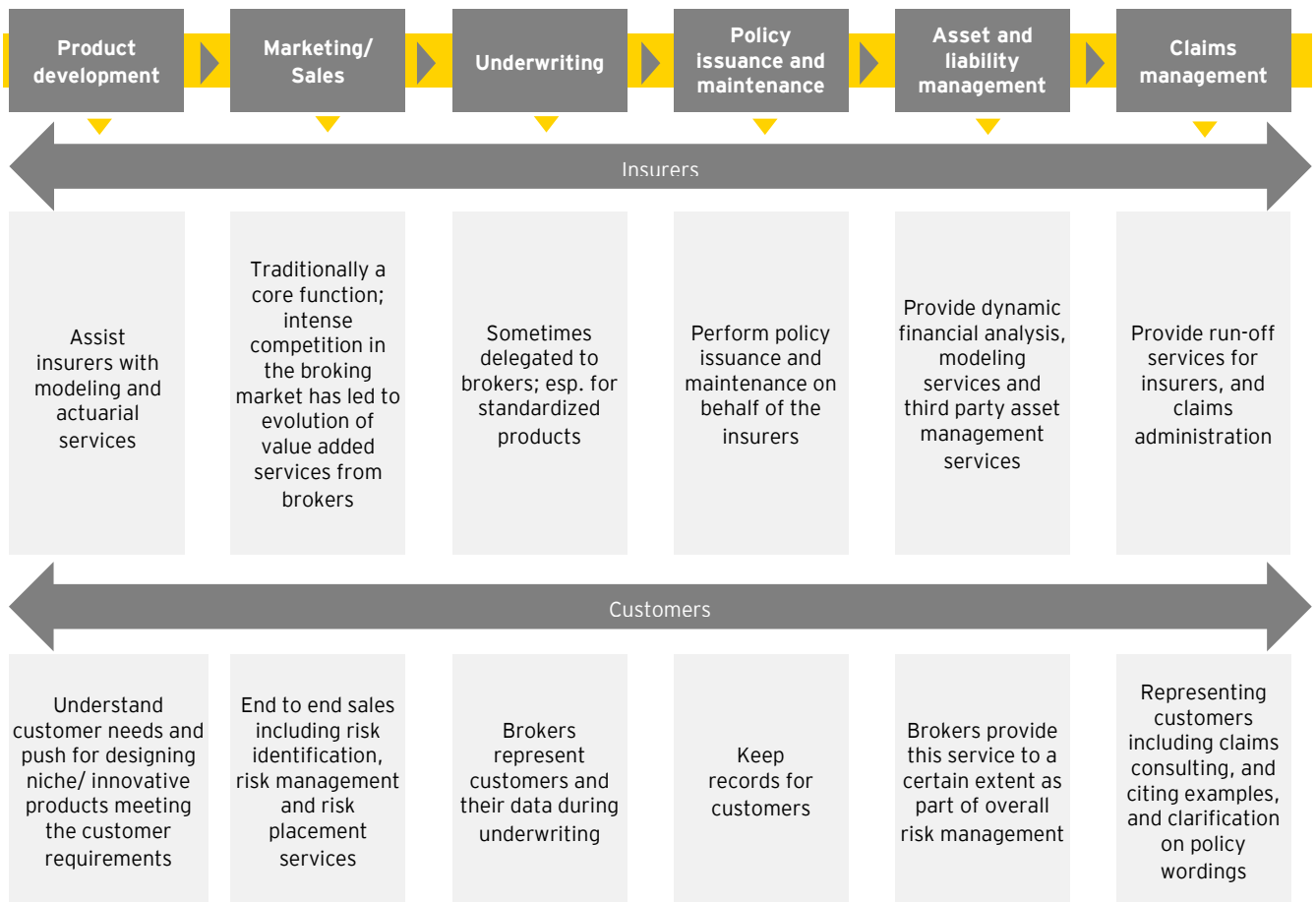
- ▶ **6 out of top-10 global brokers are not present in India:** As shown above, only 4 of the top-10 global brokers are present in India. This might have an implication on development of broking industry in India going forward. This could be attributed to growing but under-developed non-life insurance industry and policy restrictions such as FDI limit.
- ▶ **Limited focus on retail lines of business:** Most top brokers have limited focus on retail lines of business; these lines contribute less than 10% of total revenue for 8 of the top 10 global brokers.
- ▶ **Importance of employee benefits and reinsurance:** Employee benefits comprise sizeable chunk of revenue across top brokers. Reinsurance forms an important part of revenue for brokers with focus on this segment; brokers such as JLT and Willis earn one-fifth of their revenue from reinsurance segment.

6 out of top-10 brokers in the world are not present in India. This might have an implication on development of insurance broking industry in India.

The global market is highly concentrated with the top-2 brokers, which have substantially improved revenue as compared to others. The market comprises several small- and medium-sized brokers across countries. Competition in the market is based on servicing, knowledge, and pricing of products. In addition, the broking community worldwide have been facing competitive pressures from new entrants in the distribution landscape such as banks and accounting companies and from insurance carriers going direct.

5.3 Solutions and services

Brokers provide solutions across value chain for customers; their role spans across feedback and product development, sales, underwriting in some cases, policy issuance and servicing. Brokers worldwide not only act as price discoverers for customers but also understand the profile of customers, risk management strategy and help them with seamless placement of risks.

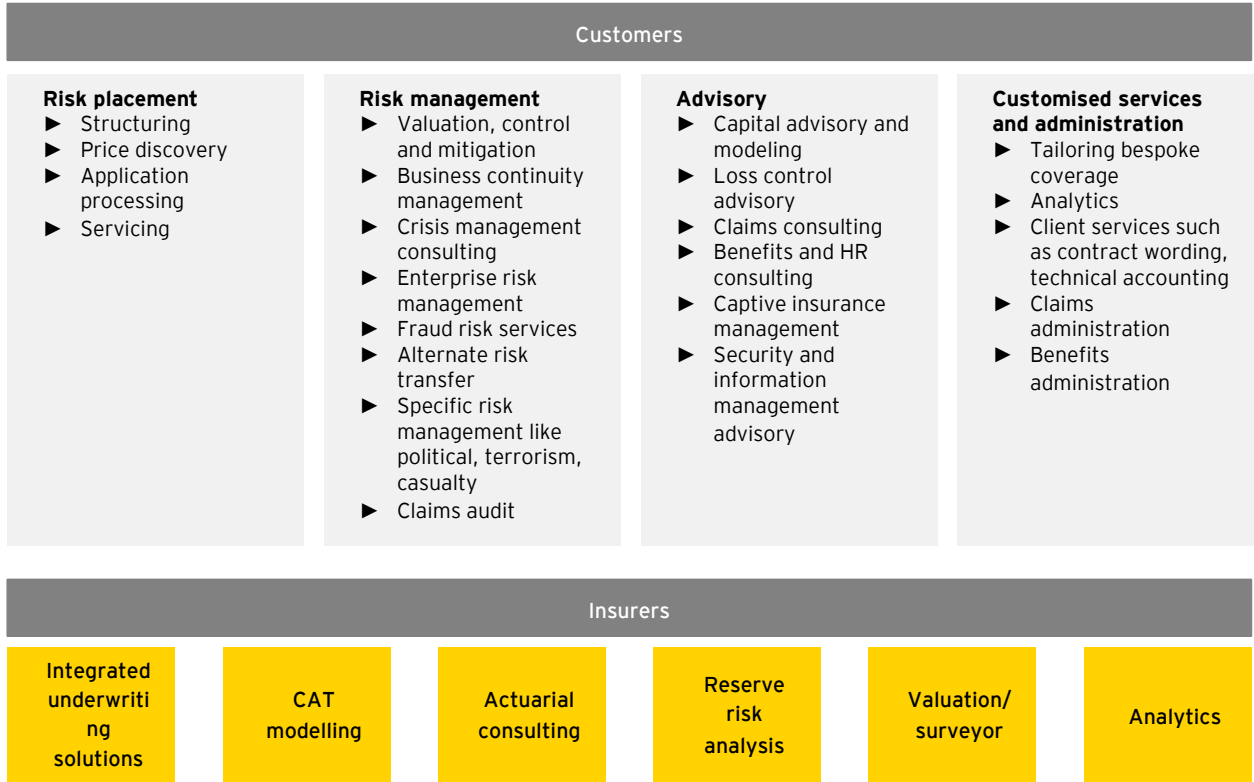


Source: EY analysis

Competition has pushed brokers to provide additional services to their customers and insurers; brokers worldwide provide end-to-end risk management, other relevant advisory services such as claims consulting, capital advisory, benefits consulting and other customized services to customers. Brokers have started providing additional services to insurers as well including valuation, and analytics.

Competition in insurance broking worldwide has pushed brokers to provide additional services to both customers and insurers.

The figure below highlights range of services provided by some of the top brokers across major countries.



Source: EY analysis

5.4 Global drivers, challenges and trends

Key drivers in the market are:

- ▶ **Growing demand in developing countries:** Favorable economic conditions due to demographics and increasing number of businesses in developing countries such as China are being eyed by major insurance brokers for their expansion.
- ▶ **Change in customer preferences:** Focus of corporate entities on employee benefits including health insurance products, increasing awareness of risks and convenience of availing broking services have resulted in high demand for insurance brokerage services and insurance products such as professional indemnity, liability, and property.

Key challenges in the market are:

- ▶ **Slow growth in mature markets:** Growth in mature and major broking markets such as the US and Eurozone is still slow. Intense competition in these mature markets has led to brokerage pressures, and delivery of value added and innovative services at low prices.
- ▶ **Stringent regulatory policies:** Stringent regulations around disclosures and commission rates are affecting brokers' operations. Insurance brokerage firms have been changing their operating model and adapting to the structures according to management information and capital systems.
- ▶ **Ongoing technological developments:** Increasing use and penetration of internet and mobile technology has led to customers directly searching for preliminary insurance information themselves instead of soliciting advice from insurance brokerage firms. Moreover, the internet has resulted in an increase in the use of direct selling channel thereby, eliminating the need for intermediaries.

Key trends across mature markets include consolidation in the insurance broking industry to fulfil growth aspirations, stringent regulatory landscape and use of data analytics by brokers.

Key trends in the market are:

- ▶ **Consolidation in the broking industry:** High competition in the global insurance broking market has led to decline in revenue and organic growth of insurance brokerage firms. Hence, major brokers of the industry are resorting to inorganic growth by acquiring small- and medium-sized brokers with good book of businesses.
- ▶ **Use of analytics:** Major brokers have started using data analytics services for superior sales and market segmentation strategies, improved underwriting, claims and other processes. It has also helped them in improving customer targeting, and product design.

5.5 Overview of broking in major markets

Contribution of broking in non-life insurance and highlights around trends, challenges and drivers are demonstrated in the table below. It can be observed that broking channel plays a major role across some of the key mature markets in the world. The channel is one of the dominant channels in majority of these markets. Regulatory landscape, changing customer preferences, and M&A play significant role in shaping up the broking industry in these markets.

Broking channel is a major channel in non-life insurance industry across major countries in the world. Regulatory landscape, evolving customer preferences and consolidation in the industry shape up the broking industry worldwide.

However in some of the developing markets, channels such as agency and bancassurance are dominant channels and significance of broking channel varies depending on the market. In these developing markets, initiatives by the local government, evolving customer preferences and growth of the economy play significant role in shaping up the insurance and the broking industry.

Country		% share of broking in non-life					Broking market highlights	
USA	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Customer experience and retention rates will be critical for sustainable growth ✓ This is especially valid with ongoing decline in insurance premiums 	<ul style="list-style-type: none"> ✓ Ageing population to drive lines of business such as employee benefits and health ✓ Earnings are below pre crisis level though 	
	56%	57%	57%	57%	57%			
Canada	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Major channel in commercial lines of business ✓ Steady growth in premiums is one of the drivers 	<ul style="list-style-type: none"> ✓ Intense competition amongst brokers ✓ With the brokers' share being already high, individual brokers will have to seek niches to grow ✓ Growing M&A is a major trend 	
	74%	74%	74%	74%	74%			
UK	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Competition from channels such as direct selling and banks ✓ High competition within the broking channel 	<ul style="list-style-type: none"> ✓ Growth pressures and presence of private equity players in insurance broking are leading to M&A 	
	58%	56%	55%	56%	56%			
France	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Property insurance has become the largest segment ✓ High concentration; In 2013, the top 10 brokers accounted for more than 70% of the overall insurance brokerage market 	<ul style="list-style-type: none"> ✓ Stabilizing euro zone economy is one of the drivers ✓ Uncertainty with EU insurance mediation directive 2 	
	18%	18%	18%	18%	18%			
Germany	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Medium-sized brokers are expected to follow strategy of specialization and regionalization ✓ Large size brokers will have to look to acquire other brokers 	<ul style="list-style-type: none"> ✓ Stabilizing euro zone economy is one of the drivers ✓ Uncertainty with EU insurance mediation directive 2 	
	25%	26%	24%	25%	NA			
Australia	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Major channel in commercial lines of business ✓ Intense competition is observed ✓ Acquisitions could be source of growth for major brokers 	<ul style="list-style-type: none"> ✓ Focus area for brokers is analytics ✓ One of the challenges is limited availability of products to meet evolving customer demands 	
	34%	34%	34%	34%	33%			

Source: EY Research, Technavio, AXCO, Insurance intelligence center

NA – Not available

Country		% share of broking in non-life					Broking market highlights	
Singapore	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Major channel in commercial non life, especially the large sized commercial clients ✓ Intense competition is observed 	<ul style="list-style-type: none"> ✓ Growth of large commercial and industrial sectors 	
	65%	67%	67%	67%	65%			
Japan	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Strong competition from corporations' in-house agents ✓ Strategy to cover niche product segments and regionalization 	<ul style="list-style-type: none"> ✓ Presence of handful of prominent insurers is another challenge for brokers 	
	1%	1%	0.4%	1%	1%			
Saudi Arabia	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Major infrastructure projects with international contractors is a growth driver 	<ul style="list-style-type: none"> ✓ Economic landscape going forward is a major challenge area 	
	33%	33%	34%	35%	36%			
China	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Rising inflation and low yields is a challenge in retail lines of business ✓ This is expected to offset high growth in motor industry 	<ul style="list-style-type: none"> ✓ Growth of the economy is a major driver ✓ Growing M&A is one of the major trends 	
	6%	6%	6%	6%	NA			
Mexico	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Increasing competition between brokers may result into price war and impact brokerage revenue 	<ul style="list-style-type: none"> ✓ Popularity of direct channel is a major challenge 	
	34%	29%	32%	29%	28%			
Turkey	2010	2011	2012	2013	2014	<ul style="list-style-type: none"> ✓ Steady growth in foreign trade due to its strategic location will enhance demand for non-life and brokers 	<ul style="list-style-type: none"> ✓ Increasing regulatory requirements and strong agency are major concern areas 	
	10%	11%	12%	12%	12%			

Source: EY Research, Technavio, AXCO, Insurance intelligence center

NA – Not available

5.6 Regulatory landscape in major markets

Regulatory landscape in both mature and emerging markets studied for this report seem focused on growing insurance penetration and developing the market. To do this, regulatory framework appears to be flexible and supportive of brokers' role in representing customers' interests.

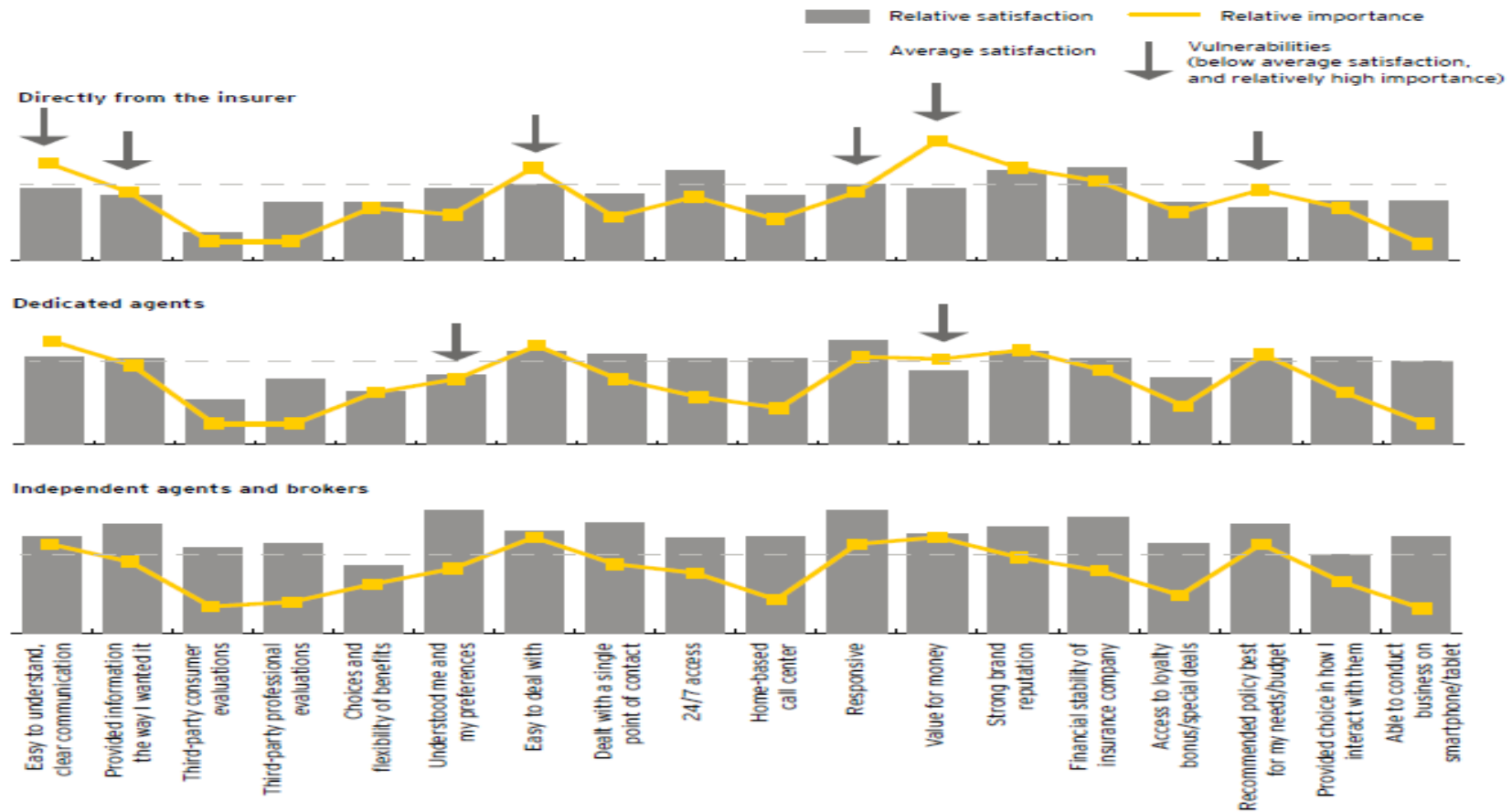
- ▶ **Mandatory cover for a few lines of business:** Motor TP, professional indemnity and aviation appear to be mandatory across most countries. In addition, there are some countries such as the UK, Australia, and Canada with employers' liability, merchant shipping, and workmen's compensation as other lines of business with mandatory cover.
- ▶ **Regulated commissions:** Various models have emerged in different parts of the world with respect to remuneration of brokers such as regulated commissions by insurers, fee by customers or unregulated commissions as defined by insurers. In mature markets such as Germany and Australia, the commissions are not regulated but rather defined by insurers.
- ▶ **Capital requirement by brokers:** Broking in most markets is considered a low-risk business and capital requirement by brokers is not stringent. There appears to be no capital requirement in countries such as Australia and Singapore and capital requirement is around US\$180,000 in Vietnam.
- ▶ **Validity of license:** Validity of license varies from one year for a few countries in the middle-east to indefinite period for countries such as Singapore. In most of the mature countries, the application for license renewal is not a cause of concern for brokers.
- ▶ **FDI limit:** There is no FDI limit for either insurers or intermediaries in most of the markets studied, be they mature markets such as the UK and Australia or emerging markets such as Mexico and Vietnam.
- ▶ **Service offering by brokers:** In most of the mature markets, the regulators have permitted brokers to provide various insurance and risk-related services to both insurers and customers for additional fees. There appears to be no restrictions on services provided by brokers in these markets.
- ▶ **Sub-broking:** In some of the markets such as the UK, Singapore and Germany, sub-broking is permitted and appears to be a cost-effective way of enhancing penetration of brokers and protecting customers' interests.
- ▶ **Disclosure requirements:** Disclosure requirements from brokers vary widely across countries. In Singapore, the requirement is limited to financial statements, whereas in Saudi Arabia, the requirement is more stringent with details around statement of all transactions, uncollected premium and commissions among others. The focus of regulators is also on understanding servicing aspects of brokers, e.g., disclosures around member complaints is expected from brokers in Canada.

Regulatory landscape in both mature and emerging markets studied for this report seem focused on growing insurance penetration and developing the market. To do this, policies such as FDI limits, license renewal process, sub-broking and services offered by brokers seem to offer flexibility to brokers so that they serve as an important instrument for insurance distribution.

Customer trends

EY had commissioned a global consumer insurance survey of 24,000 customers in 30 countries across four geographic regions in 2014. The survey focused on eliciting customer views through a series of 50 questions. These were posed to all participants to enable global comparison across regions focusing on both non-life and life lines of business.

Analysis of strength and vulnerabilities by distribution channel, based on customer satisfaction



Source: EY Global consumer Insurance survey 2014

Customers have given relatively high importance to needs analysis, easy understanding, communication and dealing, pricing and servicing aspects. This highlights how important it is to understand customer profile, and focus on not only pricing but also on servicing.

According to the survey, independent agents and brokers rank high across most aspects of the sales process. They appear to perform particularly well in areas that matter most to customers highlighting importance of broking channel in addressing key requirements of customers globally. Direct channel of insurers are vulnerable when it comes to understanding needs, pricing, and communicating with customers. This channel ranks the lowest among the channels considered. Dedicated agents fall somewhere in between brokers and the direct channel and rank average in terms of providing products best suited for the needs of customers.

5.7 Global best practices and learning on broking

Evolving operating model: Brokers worldwide have been continually responding to evolving solutions and services, customer preferences and regulatory landscape. As a result, they have been modifying their operating model continually across departments:

- ▶ Business development: Renewed focus on industry-specific proposition development and centralized sales support
- ▶ Client management: Face-to-face client management for only mid-market and large clients
- ▶ Insurer management and placement: Development of centralized insurer management and placement functions
- ▶ Operations: Centralized operations functions
- ▶ Claims: High-value claims advocacy instead of claims processing teams
- ▶ Credit team: Professional credit control function
- ▶ Finance: Finance transformation to enable increased process efficiencies and improved control
- ▶ IT: Significant investments in systems
- ▶ HR: Matrix management and balanced scorecards promoting shared success
- ▶ Compliance: Investment in capabilities

Focus on technology and operational efficiency: Brokers have started using sophisticated data analytics tools to acquire customer footprint data and to have a competitive edge. Technology is heavily used not only in personal lines space for example aggregators, but has also been gradually used in commercial lines of business.

Brokers' service offerings: With increasing competition and pricing pressures, brokers have evolved to provide a range of services and act as one-stop shop for customers. Currently, most top brokers are engaged in providing end-to-end risk management and other insurance consulting services.

Specialized brokers: At the same time, some small- and medium-sized brokers in some of the global markets have adopted specialization to demonstrate deep competency to acquire clients. This specialization is witnessed in terms of either customer segments, or industry specialization or line of business.

Growth pressures and consolidation: During the growth phase, there is a lot of pressure to scale up and diversify the services, products, and also expand across geographies. Once the organic growth stabilizes, most mature markets have witnessed continued consolidation of a fragmented market. This is more prominent in geographies where significant number of private equity and related participants are active in the broking market.

Network of brokers: Consolidation in the broking market over recent years has led to the emergence of few but more dominant large broker groups. In response, small brokers have been hitting back by forming networks, to allow them to offer a credible alternative to large broking groups.

Broker networks, especially in the UK, are typically association of small independent brokers enabling them to have wide access to the market by leveraging each other's network along with providing them with better terms and higher earnings potential. As the insurance market becomes more global, international broking networks are emerging to meet the needs of an increasingly multinational client base.

The USP of these networks is that they perform a range of services for their members such as handling of client money, insurer reconciliations, compliance, HR support, marketing, training and system support. These functions can often be provided far more cost efficiently as part of a network, freeing up brokers to concentrate on front office activities.

Increasing regulatory supervision: Key regulatory concerns revolve around more transparency, disclosures and auditing of brokers. There has been major focus on conduct and practices of brokers in both retail and commercials segment, which could pose reputational risks for the overall market. These focus areas have pushed brokers to consider management time and costs to respond, engage and remedy any action plan and subsequently transform key components of their operating model.



6

Expectations and imperatives

6 Expectations and imperatives

6.1 Expectations from the regulator

The Insurance Regulatory and Development Authority of India (IRDAI) has to balance multiple objectives including developing the insurance industry, protecting customers' interest and regulating the activities of various players such as insurers and intermediaries. In order to meet these objectives in a more effective manner, IRDAI should focus on laying down broad principles and standards and ensuring adherence by stakeholders.

Based on inputs received from various stakeholders, study of global markets and analysis of current broking landscape, as mentioned in previous sections of this report, the following are the key expectations from IRDAI to enable brokers to better serve their customers.

1. Recognize the unique role of broking channel
2. Spread awareness among customers about role of intermediaries
3. Bring in flexibility and openness in remuneration
4. Mandate more transparency from brokers
5. Empower IBAI as self-regulatory body
6. Facilitate penetration through sub-broking
7. Frame regulations and guidelines basis enhanced segmentation of brokers
8. Bring in product reforms to provide more flexibility to customers
9. Enhance brokers' role in providing more services to customers
10. Enhance brokers' role in providing more services to insurers
11. Simplify license renewal process
12. Specify consistent and clearly defined punitive actions for non-compliance
13. Include IBAI's representation across relevant initiatives in IRDAI

Recognize the unique role of broking channel

The role of the broking channel is unique as it is the only channel, which represents customers and not insurers. This distinction has been maintained for more than a decade and has worked well in protecting customers' interests. However the recent regulations – allowing corporate agents and other intermediaries to tie-up with multiple insurers – seem to have caused confusion for customers.

Although the results of this development are yet to be witnessed, the IRDAI should preserve the sanctity of broking channel and thereby, ensure customers' interests going forward.

Spread awareness among customers about role of intermediaries

In view of the recent regulations, and objective of protecting customers' interests, the IRDAI needs to spread awareness about roles and responsibilities of various intermediaries including brokers.

This can be achieved through traditional platforms such as print medium, advertisements and conferences and through other platforms such as mandating disclosure about the role on brochures and application forms.

This move will benefit customers – especially retail customers and SMEs clients – who may not be aware about roles and benefits of various intermediaries. This is expected to result in more informed choice on part of the customers.

Bring in flexibility and openness in remuneration

The IRDAI should ensure flexibility in remuneration of brokers across lines of business. This will ensure remuneration to be market determined rather than be capped basis line of business. The market determined rate will then be based on services provided by brokers and will be a better reflection of value addition performed by brokers.

The move will help industry become transparent for customers and other stakeholders. Over a period of time, the move will bring equilibrium in brokerages across lines of business depending on a slew of services provided by brokers.

Based on discussions with brokers, although the passage of the Insurance Laws (Amendment) Bill 2015 could be considered as progressive in terms of expense limits, the recent exposure draft on payment of commission or remuneration or reward appears to curtail the flexibility of market participants and the manner in which insurers may want to manage their expenses.

Mandate more transparency from brokers

IRDAI should focus on additional measures to ensure more transparency from brokers by mandating additional disclosures, compliance and auditing requirements.

The disclosure requirements should be around pricing and commissions on risks placed, sourcing of business across lines of business and customer-wise, customer retention, complaints received and serviced, servicing aspects, customer solicited transaction details and participation of number of brokers in a transaction among others. The compliance requirements should be around minimum business requirement basis categorization or segmentation, minimum customer retention (especially for individual customers) and servicing among others.

This is expected to reduce unfair business practices and bring in professionalism among the broking community.

Empower IBAI as self-regulatory body

The regulator should empower IBAI to takeover duties and responsibilities to monitor and manage broking community. This should include defining code of conduct, taking appropriate actions for breach of code, monitoring compliance within regulatory framework, conducting training of staff, assisting in resolving disputes actively, and licensing of brokers among others. This move should ideally go hand-in-hand with change in operating model of IBAI, if required.

This will help IBAI in maintaining trust of brokers, exercise more effective monitoring over brokers and will help IRDAI in better oversight on brokers.

Facilitate penetration through sub-broking

The IRDAI must allow sub-broking which is expected to enhance presence of broking community beyond major cities and enhance penetration especially in retail and SME segments.

Although some concerns around conflicts with existing channels have been raised by some stakeholders, protecting the interests of customers and achieving the larger objective of enhancing insurance penetration should be the key considerations. Allowing sub-broking can help meet these objectives by providing more choice to customers with brokers representing their interests and ensuring better penetration through sub-brokers' presence in smaller cities, towns and rural areas.

Frame regulations and guidelines basis enhanced segmentation of brokers

The regulator needs to consider the difference in the business context and customer knowledge of retail and corporate entities to frame differentiated regulations for brokers serving these segments.

This will help in drafting directed regulations and guidelines and imposing compliance requirements basis the type of business, broker is undertaking. For brokers serving retail customers, the focus should be on spreading awareness and enhancing penetration while ensuring robust compliance requirements to protect customers' interest. For brokers serving corporate entities, the focus should be on addressing their complex risk management needs with more flexible regulations around product development and pricing. This should be carefully implemented considering the potential increased complexity for brokers to comply with going forward.

Bring in product reforms to provide more flexibility to customers

The regulator needs to ensure product reforms; the product reforms should at least be ensured for commercial lines of business where the requirement for coverage is high and understanding of risks and wordings are sophisticated.

The product reforms should include:

- ▶ Freeing up policy wordings
- ▶ Allowing use and file products
- ▶ Enabling faster and more convenient product approval process
- ▶ Allowing innovative products and comprehensive plans

The move will enhance role of insurance broking in the Indian market, which is limited due to standardized products in the market and at the same time, provide greater flexibility to customers to manage their risks.

Enhance brokers' role in providing more services to customers

IRDAI should allow brokers to provide all types of insurance and risk consulting services to existing and new customers. The services could include claims consultancy, bespoke coverages, loss-control and forensic accounting services among others. Other than for specific insurance policies procured through a broker, there should not be any constraints in availing these services for a fixed fee as mutually agreed between brokers and customers. Claims consultancy, for instance, should be allowed for all claim amounts by a new broker even if another broker had placed the risk or is still involved in the process.

In addition, IRDAI should coordinate with other regulators including the RBI and the SEBI to allow brokers to provide more comprehensive risk management solutions going beyond insurance. Such services could include capital advisory and modelling and alternative risk transfer using other financial products.

Such a move will help brokers to understand financial profile and risk management philosophy of customers and in turn provide better products and services.

Enhance brokers' role in providing more services to insurers

IRDAI should frame guidelines for brokers to offer additional services to insurers. These could include:

- ▶ **Outsourcing services to insurers:** Outsourcing services such as data entry, policy printing, and policy delivery among others to insurers for additional remuneration. This will help insurers to contain their costs and bring in effectiveness in operations
- ▶ **Risk management services:** Services such as risk improvement, and assistance in underwriting, analytics services for additional remuneration. This will help insurers to avail sophisticated tools that can complement their risk management practices

In addition, the regulator should clarify that brokers can provide service offerings related to cross-border reinsurance or to foreign clients subject to compliance of local country regulations. These services will help brokers to move up the value chain and gain trust of insurers and at the same time, help brokers to understand business of customers thoroughly.

Simplify license renewal process

Many brokers have been apprehensive of the process of renewing their license every three years with the fear of their existing investment being jeopardized if their license is not renewed. The IRDAI has already taken some steps recently such as web-based licensing system, which are expected to ease the process. Additional steps that the regulator should consider include:

- ▶ Increased validity period; validity period could be defined according to segmentation of brokers
- ▶ Replace suspension of license with severe punitive penalties; retain suspension of license for severe cases alone
- ▶ Incorporate technology and digitalize the process to the extent possible
- ▶ Simplify documentation requirements to focus on aspects significant for evaluating conduct of brokers

Such action on part of IRDAI will provide brokers certainty in their business, thereby encouraging them to make long-term investments to increase insurance penetration and better serve the needs of customers.

Specify consistent and clearly defined punitive actions for non-compliance

The recent circular by IRDAI regarding approach in case of non-compliance by brokers on regulations, orders, and circulars among others is seen by brokers to be both complex and harsh. Violations and corresponding actions across 51 different issues make the approach complex and suspension of license for various issues makes the approach harsh.

The IRDAI has rightly proposed a graded approach for penalties to encourage good behavior and foster better compliance; however, it should focus on ensuring business continuity for brokers and making the grid simpler.

One way for IRDAI to do it will be to first classify the different types of violations into a few severity levels. IRDAI should then specify graded approach for penalties based on these severity levels. In case of low severity cases, IRDAI could specify warning and moderate monetary penalties for the first and subsequent violations. In case of high severity cases, IRDAI could specify moderate to high monetary penalties for the first and second violation and not undertaking business for limited time for subsequent violation.

Include IBAI's representation across initiatives in IRDAI

The regulator needs to ensure IBAI's representation across various committees and working groups. The involvement of IBAI will help the regulator in:

- ▶ Understanding of customers' risk management needs from brokers since they are best suited to represent customers
- ▶ Understanding viewpoint of broking community, which is one of the dominant channels contributing 23% of premium in non-life in FY15

6.2 Imperatives for IBAI

Based on inputs received from various stakeholders, Insurance Brokers Association of India (IBAI) should consider the following imperatives to ensure the relevance of insurance broking:

1. Strengthen the association as an apex body
2. Establish mechanism to address customer grievances
3. Establish and enforce a code of conduct
4. Publish and review manifesto
5. Enhance sphere of influence among Government, customers and insurers
6. Educate customers about role of broking
7. Act as a conduit to augment IRDAI's supervisory role
8. Collaborate with industry associations to develop solutions
9. Play an enhanced developmental role for broking members
10. Enhance marketing activities of the association

Strengthen the association as an apex body

IBAI should strengthen its role as an apex body for brokers and other intermediaries. To do this, IBAI should do the following:

- ▶ Become an umbrella organization of not only brokers, but also other intermediaries such as IMFs and web-aggregators, which have common interests and challenges
- ▶ Represent the association members by highlighting issues besetting members in front of the Government, the regulator, insurers and other stakeholders
- ▶ Play an active role in resolving disputes among broking members

- ▶ Assist applicants in licensing and renewal process by reviewing applications before submission to IRDAI and later graduate to granting licenses on its own

The IBAI needs to proactively start performing some of these activities, while in parallel working with IRDAI to get its approval for others as required.

Establish mechanism to address customer grievances

Since brokers are their customers' agents, they need to effectively handle any customer grievance both individually and collectively. To do this, the IBAI should set-up infrastructure such as a grievance cell to effectively address issues faced by customers and monitor brokers' actions to resolve them.

Establish and enforce a code of conduct

The IBAI should frame and enforce a code of conduct to promote high business standards and enhance professionalism in the industry. Such a code should address current challenge areas including:

- ▶ Understanding customer's business and risk management philosophy
- ▶ Making customers understand available products including pricing and coverage
- ▶ Providing relevant information, professional advice and making choices clear
- ▶ Representing customers during servicing and claims stage
- ▶ Ensuring brokers' representatives are qualified and trained to provide the advice
- ▶ Not engaging in activity that may bring broking industry into disrepute

This should be followed by adequate monitoring to ensure compliance with the code of conduct to instill confidence among customers, insurers and the regulator.

Publish and review manifesto

The IBAI should publish a periodic manifesto that clearly outlines objectives and action items for that period. It should be based on dialogs with relevant stakeholders to identify focus areas such as spreading awareness about insurance among customers, monitoring activities and addressing development needs of members. This should be followed by review of actions completed during a period and feedback incorporation to frame the next manifesto.

This enhanced and transparent communication and clear set of actions will bring in required trust among broking members and other stakeholders.

Enhance sphere of influence among Government, customers and insurers

The IBAI should focus on enhancing sphere of influence among various stakeholders including Government, customers and insurers. It can focus on:

- ▶ Standing up on behalf of customers and demonstrate support such as free claims consulting during natural catastrophe, and other national and state level concerns involving insurance
- ▶ Working jointly with the Government and the regulator to address strategic concerns in the insurance industry
- ▶ Working with insurers and taking up operational challenges besetting the insurance industry

Increased sphere of influence will result in the association becoming more empowered to protect customers' interests and to serve needs of broking members.

Educate customers about the role of brokers

The IBAI needs to spread customer awareness about role and benefits of brokers. Among others, IBAI can leverage traditional medium such as print and new medium such as online to spread awareness, platforms such as conferences to discuss best practices, and jointly work with other trade bodies to highlight the role of brokers in risk management.

This will result in enhanced credibility and creation of new markets for brokers in the industry.

Act as a conduit to augment IRDAI's supervisory role

The IBAI should act as a conduit to augment IRDAI's role through constructive practices such as:

- ▶ Conducting seminars and conferences around new developments with representation from various stakeholders including IRDAI
- ▶ Highlighting global leading practices in insurance broking and implications in the Indian insurance broking market
- ▶ Sharing on-ground realities of broking market with IRDAI to assist them in taking constructive actions
- ▶ Forming specialist groups for varied areas and sharing technical papers incorporating view of the industry

Collaborate with industry associations to develop solutions

The IBAI should collaborate with various industry associations to understand trends, risks, specific requirements and help associations and insurers to frame products to meet those requirements.

This will result in mutual benefit for both IBAI and other industry associations; industry associations can better serve their members' interests with innovative products and IBAI and its members can get a platform to shape the industry by managing its insurable risks.

Play an enhanced developmental role for broking members

The IBAI should play a developmental role for its broking members and should focus efforts on:

- ▶ Training broking members on variety of topics including code of conduct, new developments and compliance-related aspects
- ▶ Starting a training institute of its own with course content jointly drafted by reputed institutes and insurance industry practitioners to meet the continuing educational requirements of brokers
- ▶ Forging alliances with other associations worldwide and providing online platform for networking and sharing knowledge and skills with broking members of other countries
- ▶ Creating platforms such as annual awards for recognition of brokers
- ▶ Assisting brokers with support activities such as framing policy wordings and legal and compliance helpline numbers among others
- ▶ Leveraging economies of scale and provide IT-related services to brokers including IT tools and risk management tools to brokers

Enhance marketing activities of the association

IBAI should focus on creating a brand for itself and enhance visibility among stakeholders. This can be achieved through:

- ▶ Publishing and circulating periodic reports on topics such as new developments, emerging risks and implications, new solutions developed, and activities conducted by IBAI
- ▶ Conducting periodic customer feedback exercise and informing findings to stakeholders
- ▶ Creating "need a broker" helpline for customers or "find a broker" link on the website
- ▶ Providing a platform for broking members to interact with investors worldwide willing to invest in the brokers' business

6.3 Imperatives for brokers

Based on inputs received from various stakeholders, brokers should consider the following imperatives to ensure their relevance in the insurance broking market.

1. Build increased trust with stakeholders
2. Enhance product and industry knowledge
3. Expand service offerings
4. Focus on impeccable servicing and claims support
5. Leverage online and point-of-sales to enhance penetration
6. Focus on specialization
7. Enable product innovation through customer awareness and in-depth needs analysis
8. Evolve operating model

Build increased trust with stakeholders

Stakeholders including customers and insurers need to have increased trust in brokers, which has been marred in some cases by instances of lack of professionalism. In view of this, it is imperative for brokers to adhere to a code of conduct and demonstrate as acting in the interest of stakeholders, particularly customers. Brokers should ensure that they are:

- ▶ Acting in the best interests of customers including
 - ▶ Understanding their financial profile, risk management philosophy and needs from insurance
 - ▶ Highlighting right products and extent of coverage vis-à-vis pricing of the product
- ▶ Refraining from undermining role of other brokers including
 - ▶ Quoting prices without understanding the exact needs of customers
 - ▶ Not being respectful of different brokers' strength areas and their existing relationship with customers

Enhance product and sector knowledge

Brokers should focus on enhancing their product knowledge, understanding underlying sector's dynamics and identifying requirements for the customers. Enhanced knowledge provides opportunities for brokers to not only maintain their distinction with existing customers but also grow their business beyond traditional sectors and requirements.

With the emerging new businesses and on-going developments such as e-commerce, increasing threat of cyber risks, free-up policy wordings for mega risks and liability lines of business, the expectations from brokers in terms of understanding the sector, underlying risks, and product and coverage knowledge are bound to increase.

Expand service offerings

Brokers need to expand their service offerings and act as one-stop shop for customers. This is important not only to meet evolving customer preferences but also to maintain a distinction in the competitive broking industry. Hence, brokers need to prepare themselves for additional services to customers such as:

- ▶ Risk management: Comprehensive risk management services to customers including valuation, control and mitigation, business continuity management, crisis management consulting, enterprise risk management, and managing specific risks such as political, and terrorism
- ▶ Advisory: Consulting services to customers including employee benefits and HR consulting, captive insurance management, and security and information management advisory
- ▶ Customized services: Customized services such as bespoke coverages, contract wording, claims administration and benefits administration

Services to insurers could include modelling, actuarial consulting, reserve risks analysis, valuation/ surveyor services and analytics.

Focus on impeccable servicing and claims support

Customers' expectation from brokers to represent and assist them during claims is one of the key reasons for customers to source policies through brokers year-on-year. In view of this, brokers should ensure the following:

- ▶ Invest in customer servicing
- ▶ Ensure integration between sales and servicing personnel
- ▶ Enhance knowledge and cite global practices and examples during claims settlement
- ▶ Frame seamless processes around availability of touch-points, loss evaluation, documents processing and research activities among others

Leverage online and point of sales to enhance penetration

Brokers should leverage platforms such as online (web and mobile) medium, and point of sales (PoS) to target untapped segments and lines of business in order to enhance their significance and penetration at large. The pull-based online medium and distribution reach of PoS provide opportunities to target specific segments at much lower costs.

Although online medium is more suited to target retail customers, their usage across SME segment has been increasing in mature market such as the UK especially across standardized products. In addition, with the IRDAI offering flexibility to brokers and corporate agents to leverage PoS, the brokers should take a lead to tap this channel to enhance their reach across retail lines where their penetration is currently low.

Focus on specialization

Brokers should focus on specialization to meet needs for niche expertise and in-depth technical understanding of the specialized segment. The specialization should be either across a specific solution such as employee benefits, liability or across a specific industry or sub-industry such as event management, or construction vehicles' insurance.

This is more important for medium-size and small-size brokers who do not possess required resources to focus on most segments and compete with large brokers. By showcasing specialization along with technical understanding, these brokers can create their niche where they become preferred brokers for customers.

Enable product innovation through customer awareness and in-depth needs analysis

Brokers need to enable product innovation by highlighting either risks or risks' implications not known to the customers. Through this, the brokers can play a major role in creating new markets and expand their growth opportunities.

Additionally, brokers need to identify specific risks of customers and assist insurers to design innovative products meeting those risks. This requires brokers to gain an in-depth understanding of customers' business and associated risks requiring insurance thereby demonstrating the true value addition to their customers.

Evolve operating model

Brokers need to be flexible and evolve their operating model continually in view of changing growth opportunities, evolving regulatory landscape and changing customer preferences.

The changes around operating model could be around:

- ▶ Business development: Renewed focus on industry-specific proposition and centralized sales support
- ▶ Client management: Leverage various media such as online, face-to-face or tele-marketing basis customer segments and lines of business
- ▶ Operations: Centralized functions such as placement or decentralized operations functions such as sales to gain increased control or flexibility as the case may be
- ▶ Claims: Claims consulting team rather than just claims processing team
- ▶ Compliance department: Investment in capabilities to develop and strengthen the department



7

Conclusion

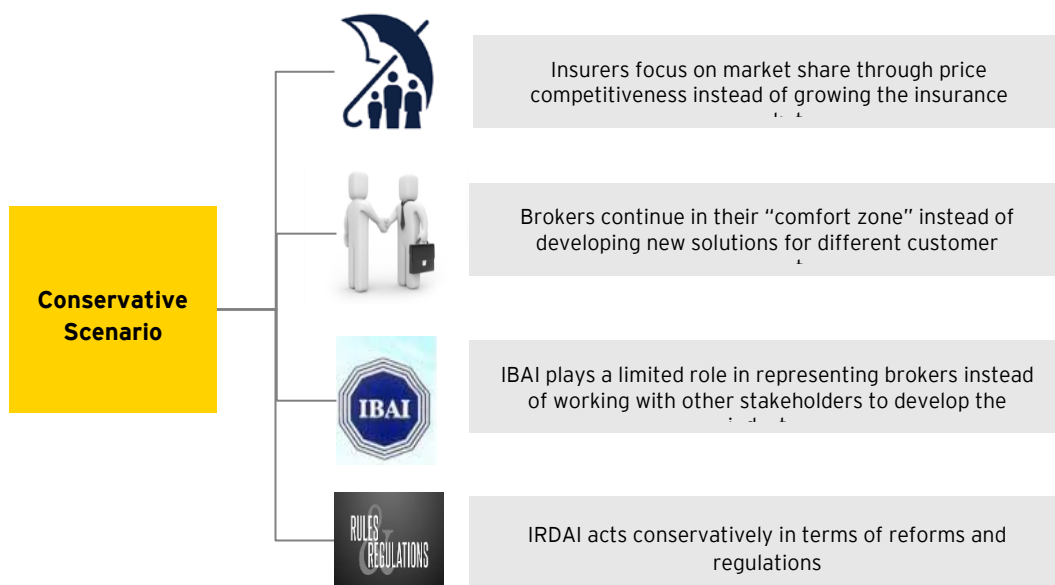


7 Conclusion

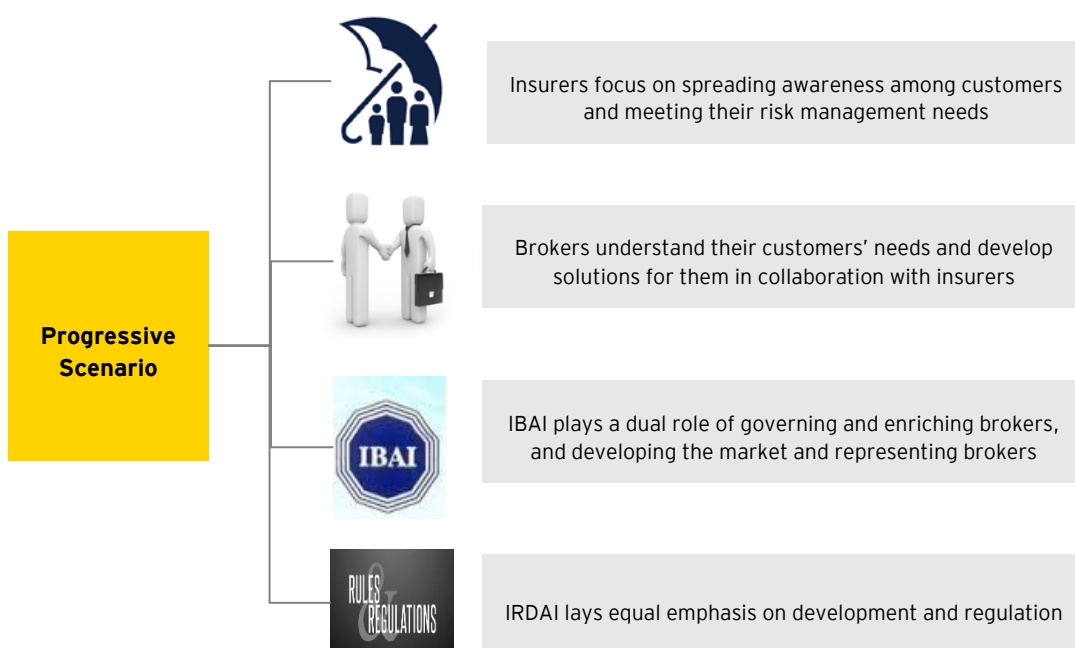
7.1 Industry scenarios by 2025

The insurance broking market is poised for strong growth in the times to come. The drivers for this growth will be growth in the insurance market, expansion in role of brokers, and increase in size and number of corporate entities in India. However, the exact nature of growth and relevance of brokers in the market primarily depends on actions taken by stakeholders, i.e., insurers, the regulator, brokers and IBAI going forward.

In view of this, the report highlights two different scenarios – conservative and progressive. In the conservative scenario, the stakeholders will evolve incrementally and adapt a reactive approach to changing market conditions; whereas in the progressive scenario, the stakeholders will take proactive actions to enable positive market conditions.

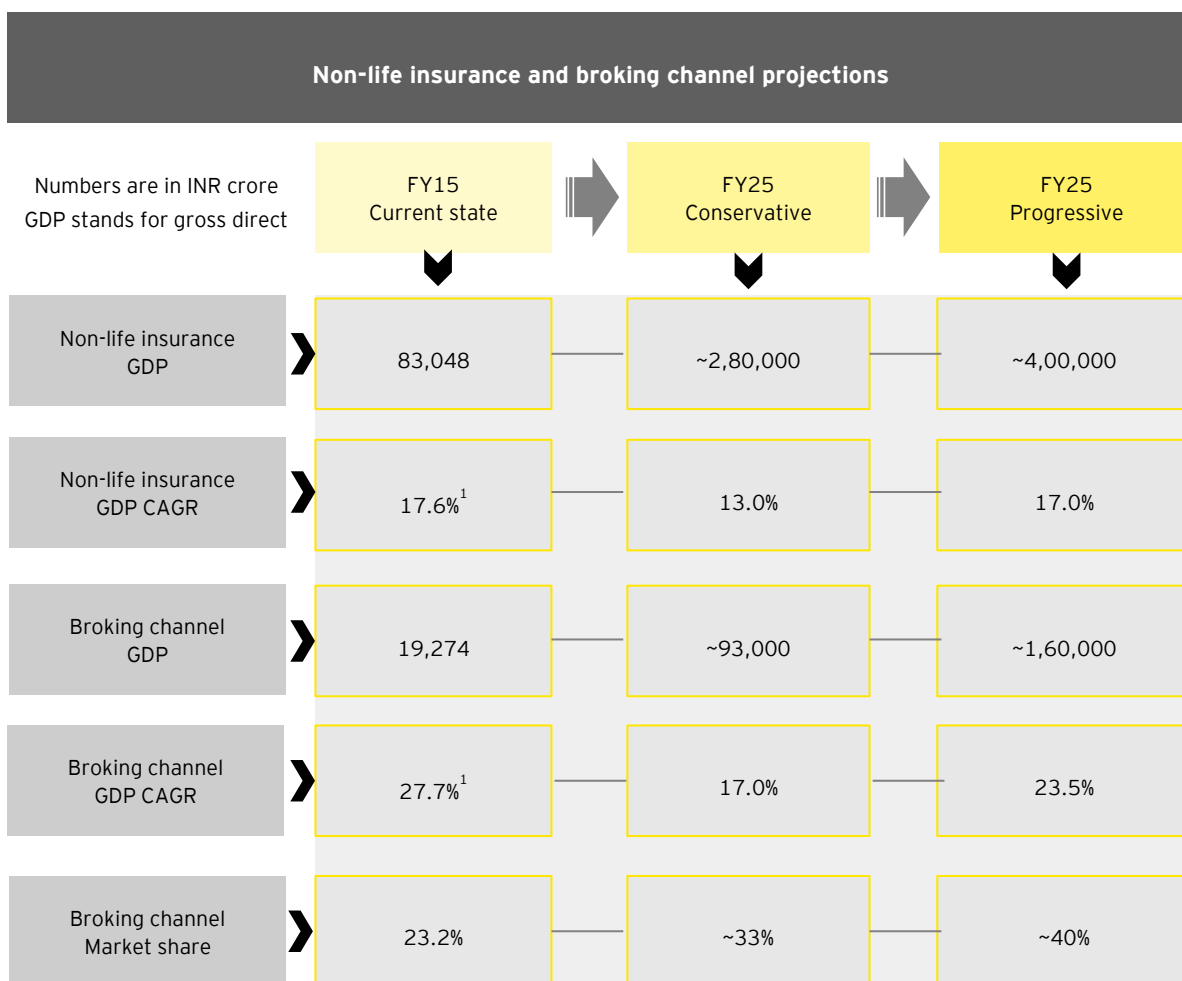


Source: EY analysis



Source: EY analysis

Although the non-life insurance segment is expected to grow at 12%–14% CAGR in the next ten years; progressive actions could propel the growth to 16%–18% CAGR during the same period. The broking channel in



Source: IRDAI, Public Disclosures and EY analysis

the conservative scenario is expected to grow higher than non-life insurance industry at a CAGR of 17% and contribute more than 33% of gross direct premium in the next ten years. However, the broking channel has the potential to grow at close to 23.5% CAGR and contribute around 40% of gross direct premium if progressive actions are taken.

The life insurance industry is expected to grow at a CAGR of 10%–12% in the next ten years; progressive actions on part of stakeholders and favorable tax regime may propel the growth at a CAGR of 14%–16% during the same period. The broking channel is expected to contribute around 1.2% of new business premium in the conservative scenario and 1.6% of new business premium in the progressive scenario.

Life insurance and broking channel projections

Numbers are in INR crore
NBP stands for new business

	FY15 Current state	FY25 Conservative	FY25 Progressive
Life insurance NBP	1,13,327	~3,20,000	~4,60,000
Life insurance NBP CAGR	0.6% ¹	11.0%	15.0%
Broking channel NBP	1,451	~3,800	~7,300
Broking channel NBP CAGR	-0.3% ¹	10.0%	17.5%
Broking channel Market share	1.3%	1.2%	1.6%

Source:-IRDAI, Public Disclosures and EY analysis

The reinsurance industry is expected to grow due to underlying growth in the insurance industry. The growth in the reinsurance industry is expected at 10%–12% CAGR in the next ten years and the industry is expected to become around INR50,000 crores to INR60,000 crores in terms of reinsurance premium ceded. The broking channel is expected to place more than 50% of this reinsurance premium, thereby playing a major role in shaping the reinsurance industry.

7.2 Vision 2025 for IBAI

Brokers are agents of their customers and strive to serve their risk management needs through insurance and reinsurance. The Insurance Brokers Association of India (IBAI), as the association of all insurance and reinsurance brokers in India, is committed to facilitate this by understanding the evolving needs of customers and the role of brokers in meeting these needs. Toward this, IBAI's vision is crafted in line with its objects and expectations of stakeholders including customers, broking members, insurers, reinsurers, other industry players and the regulator.

Vision for IBAI

To make broking a preferred channel for customers by promoting highest standards of professionalism among members

The vision can be achieved through:

- ▶ Promoting professionalism among brokers
- ▶ Facilitating development of the insurance industry
- ▶ Representing brokers and becoming their leading voice
- ▶ Enabling members through various initiatives

Following activities are to be pursued to achieve the vision:

Promoting professionalism among brokers

- ▶ Formulate rules and a code of conduct for brokers so as to ensure disciplined functioning
- ▶ Standardize common practices in the insurance broking industry
- ▶ Enforce more stringent disclosure and compliance requirements
- ▶ Carry out audits and checks on compliance requirements
- ▶ Maintain a governing council to consider actions on breach of code of conduct
- ▶ Address customer grievances
- ▶ Resolve disputes among broking members
- ▶ Form specialist groups and carry out research through technical papers
- ▶ Regulate the brokers including their licensing and renewal process
- ▶ Enhance transparency in communication and actions of the association

Facilitating development of the insurance industry

- ▶ Work jointly with the Government and the regulator to address concerns in the industry
- ▶ Work with insurers and take up operational challenges besetting the industry
- ▶ Collaborate with other industry associations to develop solutions
- ▶ Stand-up on behalf of customers and demonstrate support such as free claims consulting during natural catastrophe, and other national and state level concerns involving insurance
- ▶ Make representations on risks affecting trade, commerce, manufacturing, transport, shipping among others
- ▶ Conduct market surveys to help the development of the insurance business

- ▶ Take lawful steps for promoting, supporting or opposing legislation or other actions material to the insurance industry

Representing brokers and becoming their leading voice

- ▶ Highlight issues besetting insurance broking in front of the Government, the regulator, and insurers
- ▶ Find solutions to the problems of brokers with a view to adopting a common policy
- ▶ Conduct seminars and conferences around new developments
- ▶ Highlight global leading practices to the regulator and other stakeholders
- ▶ Share on-ground realities with the regulator
- ▶ Educate customers about role of broking
- ▶ Promote and foster fellowship and unity within the constituent members
- ▶ Apply to the Government, public bodies, and corporations among others for assistance with a view to promote the objects of the company

Enabling members through various initiatives

- ▶ Train members on code of conduct, new developments, and compliance among others
- ▶ Start a training institute (or associate with established national bodies) for training purposes and promote broking as a profession
- ▶ Prepare and disseminate statistical and other useful information and knowledge
- ▶ Forge alliances with other associations and promote online platform for networking and sharing knowledge
- ▶ Create platforms for recognition of brokers
- ▶ Publish and circulate periodic reports for stakeholders
- ▶ Leverage economies of scale by providing IT-related services, risk management tools, assistance in policy wordings, and legal and compliance helpline through a common platform
- ▶ Assist brokers in raising capital through permissible medium

7.3 The way forward

The insurance industry in India is at a critical juncture, with potential for significant growth if progressive actions are taken. Proactive and collaborative action by the stakeholders – insurers, brokers and other intermediaries, regulator and other stakeholders – can help realize this potential.

Insurers need to enhance penetration by spreading awareness among customers about insurance, developing products for different segments at affordable prices, making policies simple for customers to understand and making the claims process smooth and consistent. In addition, non-life insurers need to offer differentiated products for corporate customers, standardized products for retail customers and effectively manage their combined ratio by better managing their expenses and claim costs. Life insurers in particular need to make their agency channel viable, optimize bancassurance and build trust with customers.

Brokers currently play a limited role for customers. By meeting their customers' risk management needs more effectively, they will not only benefit their customers but also provide an impetus to growth of the industry. To do this, they need to focus on acquiring in-depth knowledge of their customers' business, discover new opportunities for insurance to cover risks faced by them, create niche solutions, expand their range and quality of services and ensure professionalism in every transaction.

Brokers focusing on retail lines and underserved segments of the society have an important role to play in enhancing penetration, providing choices to and representing customers. Brokers focus on these segments along with leveraging technology and putting in place an operating model with low-cost per transaction could make broking significant in retail lines in India.

IBAI as the apex body of brokers has an important role to play in enabling brokers. It needs to govern, enrich and represent its members and act on their behalf with respect to other stakeholders. IBAI needs to play its role in developing the insurance industry by working with the Government and the regulator on concerns of the industry, working with insurers in enhancing their value chain, and working with trade bodies and other associations to develop solutions.

The regulator has to balance multiple objectives and create a conducive environment for growth. This includes spreading awareness among customers about the role of insurance in their lives, offering flexibility in operating model of insurers, and bringing in product reforms that recognize the need for differentiated products for corporate customers, while laying emphasis on simple, standardized products for retail customers. Furthermore, to protect customers' interests, the regulator needs to recognize the unique role of brokers as representing their customers, bring in flexibility in remuneration, and enable brokers to better serve their customers through more flexibility in the products and services offered by them.

The key for these stakeholders will be to drive customer-centric growth by understanding customers' current and evolving risk management needs and by making insurance as a favorable solution to meet most of these needs.

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