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Insurance takes big reform strides to make it easier to understand, more required

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The insurance industry has witnessed major regulatory changes in 2024 such as revised surrender charges for life insurance, policy loans and partial withdrawal, wider choice of product add-ons, enhancing free look-in period, strict timelines for claims settlement, new customer information sheet, revised expenses of management among others.

While majority of the reforms have been customer centric to make insurance more easy to understand, purchase and retain, with India's total insurance penetration still at only 3.7 per cent (both life and non life together) compared to the global 7 per cent, more reforms are likely to be key to achieve a wider insurance net for the country, which is a stated objective of insurance regulator IRDAI.

The Telegraph spoke with insurance industry leaders to get an understanding of the reforms in the pipeline and the headwinds and tailwinds for the sector in 2025.

“The year 2024 brought in some landmark reforms that kept the industry on high gear. The sector showed agility, stepping up to meet all the deadlines issued by the regulator. While the full impact of these changes will unfold in the coming year, newer developments are poised to drive even more significant shifts in the near future,” said Tarun Chugh, MD and CEO, Bajaj Allianz Life Insurance.

"With life insurance penetration at a level of 3 per cent in FY23 and life insurance density of $70 compared to the global average of $354, the tremendous opportunity waiting to be tapped is evident. In this mix, the proposed increase in FDI limits could make it easier for newer players to enter the market.

"The composite licence, too, stands out from a customer-centric perspective. It opens up more choices by enabling new players and distributors to offer a variety of products. This mirrors global standards, encourages healthy competition and ultimately works in favour of the customer and the industry alike," said Chugh.

"It is likely that the international players who want complete control will be more interested if 100 per cent FDI is allowed. But, having said that, I believe India is a very different market. So any international player will have to spend a fair bit of time and effort to understand the local nuances to build a successful franchise. There will be a reasonably significant investment period and the RoI should not be compared to other developed markets for some period of time. Therefore, a strong domestic partner along with a reputed international player is always a good way forward," said Shanai Ghosh, MD and CEO, Zuno General Insurance.

"The proposal to allow insurers to distribute additional financial products such as mutual funds, loan, credit cards and bank deposits in addition to other value added services will open new avenues for revenue generation, positioning insurance companies as comprehensive financial service providers. For customers, this regulatory change will provide the convenience of accessing a range of financial products from a single institution, simplifying their decision making process and creating more holistic financial solutions," Ghosh said.

"Reducing the minimum capital requirement from ₹ 100 crore to ₹ 50 crore lowers entry barriers, encouraging the establishment of specialised or niche insurance providers. This change could lead to a more diverse range of insurance products tailored to specific market segments, enhancing customer choice. There may be financial and operational savings if insurers are permitted to provide several insurance classes under a single licence. A one-stop-shop for all insurance requirements could simplify the experience of customers," said Naveen Chandra Jha, MD and CEO, SBI General Insurance.

Headwinds

"The geopolitical crises have led to increased market volatility and disrupted supply chains, creating considerable risks that insurers must navigate.

In this context, the development of innovative insurance solutions becomes imperative to address these evolving threats effectively. Additionally, climate change and the frequency of catastrophic events have emerged as a major headwind," said **Tapan Singhel, MD and CEO, Bajaj Allianz General Insurance.**

"Economic fluctuations and persistent inflation present another set of challenges. The affordability of insurance products could be at risk, especially in India's price sensitive market, where enhancing penetration and driving growth hinges on making insurance more accessible to a broader audience," Singhel said, adding that talent acquisition and retention and bridging the skill gap would also be crucial to the industry's future success.

"Cybersecurity risks and the unknown element in that presents a key threat for the industry, which is centered around data. With greater digitalisation and integration, there is much more risk that the industry is exposed to," said Ghosh.
Tailwinds

"The insurance sector is redefining itself due to technological advancements like blockchain technology, which speeds up claims processing and artificial intelligence and machine learning which enable more personalised underwriting. These are being used more and more by insurers to improve customer satisfaction and operational effectiveness," said Jha.

"The recent pandemic has heightened public awareness of health risks, intensifying demand for various insurance forms – particularly health, property and climate risk sectors. This growing consciousness presents a compelling opportunity for the insurance industry to adapt and cater to the evolving needs of consumers," said Singhel.

"The liberalisation of product guidelines in particular has opened the door to opportunity and innovation in terms of creating solutions to manage existing and new risks.

"Forthcoming changes such as RBC (risk-based capital) and IFRS (International Financial Reporting Standard) which align accounting treatment of expenses and revenue, along with alignment of capital to underlying risk will also help in optimum utilisation of capital for growth," said Ghosh.

"The industry has made concerted efforts to implement reforms in 2024, with significant efforts on product modifications, system enhancements and training. While these changes have led to some short-term muted growth, they have laid the foundation for sustained long-term growth. As the industry adapts and evolves, we expect to see the impact of these reforms in the year ahead," said Chugh.