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(From right): Rakesh Jain, Tapan Singhel, K.G. Krishnamoorthy Rao, Mayank Bathwal, and Gayathri Parthasarathy

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ModiCare will raise insurance awareness

The push to bring 500 million people under insurance umbrella will not only transform the insurance beneficiaries but the healthcare industry too

BY TEAM MINT MONEY

Topic of the second panel discussion was: Disruption in the non-life insurance sector that initial public offerings (IPOs) and technology can bring.

On the panel were: Gayathri Parthasarathy, head - financial services advisory, KPMG India Pvt. Ltd; Mayank Bathwal, chief executive officer, Aditya Birla Health Insurance Co. Ltd; K.G. Krishnamoorthy Rao, managing director and chief executive officer, Future Generali India Insurance Co. Ltd; Tapan Singhel, managing director and chief executive officer, Bajaj Allianz General Insurance Co. Ltd; and Rakesh Jain, executive director and chief executive officer, Reliance General Insurance Co. Ltd. The discussion was moderated by Deepti Bhaskaran, deputy editor, Mint Money.

Deepti Bhaskaran: Three companies in the non-life sector have listed. There's another one to go. How will IPOs change the game for the industry? And I'm not talking just about companies that are listed or are going to get listed.

Rakesh Jain: I think structurally, insurance is coming of age. I'm heartened to say that for the first time in 17 years—from the Government of India and the Budget—the most promising announcement is an insurance scheme. It clearly reflects that general insurance is coming up to this stature. Having said that, most of the insurers have gone through their own stages of evolution. I think companies have been, or were planning to be, listed at this point in time. Very often, the consumers and investors are going to be the same set of people. So, for an insurance company, this is the right time to make the right noise. Stature building is important because the next leg of growth is not going to be a function of just making a product or distribution. That phase is getting over. What adds further (to stature building) now is the accountability, the responsibility and obviously when companies do well, even the consumer perception about the products goes up significantly. For us, this is like a game-changing move; a move which really propels us in the big league. It gives us an opportunity to really play shoulder-to-shoulder with a bank or any other large-format financial institution.

Tapan Singhel: I'm super-excited about listing. Because for a change, I see in the market things are happening: what the regulator could not get done, nor could promoters get done—which is the discipline of underwriting. Look at the shift of companies that are listed or are going to be listed. Look at the actions they are taking in terms of cutting their loss ratios and expenses. A good disciplined business environment is always good for consumers. Listing is creating this environment; people now understand that they have to get the business right, otherwise the market is not going to give them anything.

K.G. Krishnamoorthy Rao: I think we should have expected listing because any investor who has invested in an insurance company after a certain point of time, would like to unlock the value. So the listing has happened now in this market after almost 17 years of operation. Underwriting is also coming to notice. The companies will start looking at their net combined ratio, which is the measure of general insurance industry's health. Naturally, customer will finally benefit because unless companies realise that they need to look at the customers, they will not be able to grow and that will determine their health in the stock market.

Mayank Bathwal: The real value discovery is in terms of where the value in the business lies. Getting topline just for the sake of topline, may not be as relevant as probably it was in the past. If you're making money, if you're creating value for your stakeholders or investors, I think that's where the focus will shift. And as a late entrant in this industry, we do hope we make underwriting profits at a pace faster than what we've seen so far.

Gayathri Parthasarathy: I think everybody is looking forward to listing for various reasons. One is definitely being customer-centric—how does one get there—getting the right discipline, getting the right amount of transparency and accountability which really leads to being customer-centric because then you become accountable to your investors and then finally hundred percent to your customers. So that's really a key theme.

Bhaskaran: From building an underwriting discipline perspective, the game-changing event happened more than a decade ago when the industry got de-tariffed. But that hasn't happened and now we are talking about IPOs building that underwriting discipline. Tapan, give me a perspective on why were the insurers not focusing on underwriting?

Singhel: I think some people wanted to capture the market share by thinking that they could let go of the price and recover later. That to me is a strategic mistake to be made, because in general insurance it's a yearly contract. So you really cannot capture market share by burning capital. If the only value you bring is a price discount, then the customer will go to somebody else who gives a price discount later. In the general insurance industry, you have to be disciplined from day zero. You have to be very careful on how you write the business and understand risk. It's a very technical business. Unfortunately, lots of people take it like FMCG or banking industry. It's more complex than that.

Rao: If you look globally, most of the markets, when they got de-tariffed, the rates came down and then at some point the shareholders started questioning the management. And then there was pressure on the managements to correct their bottom line. And that is how the rate started correcting. Unfortunately, in the Indian market there were two types of companies—public sector companies and private sector companies. Mostly, the public sector companies never concentrated on their bottom line as the mandate was to grow. Maybe the government looked at this as providing social security—the mandate always was to grow at whatever cost. The bottom line was never in focus. Fortunately for them, there was a large investment book that provided enough returns for them to survive. So because of that, when they were controlling around 70% of the market, it was always that they could determine where and how the market should go. Naturally, others followed. Everybody wanted to protect their market share. Maybe this is one of the reasons why this market has taken time to look at the importance of net combined ratio and the importance of generating underwriting profit.

Bhaskaran: Will IPOs and the focus on underwriting lead to price correction?

Rao: The concept of insurance itself is pooling of premium. So if you don't charge the right premium based on the risk exposure of the customer, naturally somebody else is subsidizing that. Maybe the customer who is not up to the mark, who is giving lesser premium now has to be worried.

Singhel: If you remember, a couple of months back we said that we will reduce the motor price by 10-15%. If I look at my growth, it is like 70% over the market growth, which is happening at a good pace; so the point it made was, if you are efficient and pricing is right, why should the premium go up? The issue is that the efficiencies and business mix have to come into scale. I don't think the customer should suffer. But yes, one could see price correction if you have been operating on a combined ratio of over 100 for so many years and are now trying to bring it down. With with the new Motor Vehicle Act coming in, the pressure is very high for the companies to come below 100. Because then the reserves and the money made on reserves is going to disappear very fast.

Bhaskaran: How can technology help in keeping prices under control?

Parthasarathy: Efficiencies have to play a huge role in terms of not increasing the premium, and at the end of the day the customers need not pay extra. Technology can play a huge role in this. Look at what is our online subscription? What is the penetration? What's the adoption that we have today, compared to the expectations or the investments that go behind it? I think we are far low compared to what we should ideally be. Online can be key for customer acquisition and can bring in a lot of efficiency and also make the process easy for customers. Pricing is a very important aspect because if you price it right, then you don't need to worry about the premiums, as they are interlinked.

Bhaskaran: Will the online space bridge the information gap that exists between buyers and manufacturers?

Bathwal: In health, it is already happening. There is complete information symmetry as far as the consumers are concerned. They can go to the Policy Bazaar website or they can go to any other web aggregator site and they can compare any offering. I don't think it's an issue of availability of information. I want to bring in transparency and efficiencies from another perspective. What is it that makes underwriting profits in a health insurance company? What is your level of efficiency in expenses and what is your efficiency in managing claims? Let me pick one area of claims. When I looked at it from the outside, I always heard that there is inefficiency in this area. When I visited my joint venture partners, I saw that 97% of their claims were actually processed with no manual intervention and it was completely auto-adjudicated. I come to India and not even 1% of claims happen like that. I was shocked to see that information is flowing from a hospital to an insurer, and even in today's day and age through faxes, in some cases. Now that's where technology can come in. Now the data is transparently available. You can make the process efficient. You can bring down the cost of that administration. You can use that data for many other cases in the future, in terms of how do you adjudicate claims. You can bring in elements of standard treatment protocols, elements of removing inefficient costing. Every 1-2-3% of cost down is increasing your underwriting profit or giving an ability to pass on the benefits to the consumers.

Jain: The biggest challenge for India is awareness and people really coming into the fold of insurance. Anywhere in the world where penetration is deep, prices are optimal. So in some sense, across the different segments, even motor insurance, we see only 50% of the vehicles are insured. If 100% were insured, I can guarantee at least from my side that the prices will be far more optimal. The same goes for health. Only 2% of the people really buy health. What about the balance? They get it in some way or the other. So, structurally we have to see, does the online enable an environment wherein people come easily? Anywhere in the world, what we have seen is, you start with simple products. Awareness is because products are simple. It is aligned to the way the customer acts or interacts in the e-comm environment. You'll see simple things happening and people coming in the fold of insurance. What will happen possibly beyond that is then insurance companies, when they own the customer, will start to think it as a lifetime-value situation. You'll start to really cross-sell, up-sell and customize as per the needs of a particular individual and that's where product innovations take place. Today, there is a huge arbitrage on the two sides. I don't know how many people realise, we still perhaps don't have a formal KYC. How much do we know a customer? We are all shooting in the dark. So online is a great way to attract consumers. I expect online to create a spectrum of consumers to come in and mostly the millennials who will eventually lay down the foundation of insurance in this country.

Bhaskaran: How are insurers looking at ModiCare? Is it an opportunity or a threat, given the premium estimates?

Bathwal: We don't know what the pricing is going to be at this stage. So I think, let that get discovered. It's an opportunity in two senses, whether you participate in the process or not. One is the awareness. I don't think that there could be anything bigger than this in terms of creating awareness for health insurance. Second, the government is saying Rs5 lakh coverage for a family in that segment of our population; then is there any reason why we should sell any policy below Rs5 lakh at all going forward? This is a huge opportunity, irrespective of whether the insurance companies play in this or not.

Jain: I see this is a big opportunity. We need to recognise that the minimum healthcare cost in this country for many things run into a few lakhs. So this is like a realisation which really seeps in a point in time. The government a few years back had run a scheme—Rashtriya Swasthya Bima Yojana (RSBY) but the format was Rs30,000. And obviously we still see a lot of people not picking that up; and I think it was also because Rs30,000 was not adequate enough. Structurally, the healthcare infrastructure will evolve. The moment 40-50% of India will seek a medical intervention on a daily basis, all of us will go down there and create our own opportunities. I also personally feel that what we think as bottom-of-the-pyramid are the potential buyers of high-end products in the future. Everybody in India will grow economically too, and their needs will multiply and most of the insurers will be there to support them when they really look beyond Rs5 lakh to go into Rs10 lakh, Rs20 lakh or Rs30 lakh.

Singhel: With good health insurance and good healthcare, the average life expectancy of Indians will move up. It has that powerful an impact. With execution, and money coming in, infrastructure will evolve. And the price is a challenge. The industry and the healthcare have to come up because you'll have 500 million people coming in. Look at the impact it will have on the country and getting that right is the challenge. We should all, as an industry along with the government, be super-excited to raise the average life expectancy of Indians. We have the opportunity to do that. If the business proposition is there even in a village, why would the healthcare system not evolve, why will doctors not go there? A simple example is crop insurance. See the investment in the claims today. People are looking at satellite imagery, they are looking at drones. Give it 3 to 5 years, you can actually insure even a metre of crop. Otherwise, before this announcement, nobody really looked at it at that depth.

Rao: This is a very powerful thing. We are covering 500 million people. First, all the government's insurance schemes have only increased awareness about insurance. Second, it is still not clear whether insurance companies will be part of it or states will have their own Trusts; we don't know what are the models being proposed. The success of it will be on how the implementation is done because some of the problems with the earlier RSBY has been frauds that used to happen in some of the places. How do we curtail that? What control measures are put in place, either by the insurance industry or by the government? That becomes very important as it's not that the scheme only has to run for 1 year. It has to be sustainable, properly priced, and proper control mechanisms have to be in place; then it can be sustainable and it will be good for the industry as well as for the public.

View the full discussion on: *bit.ly/2GpPbRl*

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You can make the process efficient. You can bring down the cost of that administration. You can use that data for many other cases in the future, in terms of how do you adjudicate the claims"

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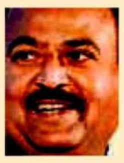

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