

Changing Norms of Insurance Sector

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Insurance sector of different nations came under a sweep of changes with the changes in the dynamics of market and volatile nature of economic events that economy has to confront. There is no denying the fact that insurance sector is one of the fastest growing sectors not only in India but the whole world. But it has its own insecurities and volatilities of operation. In India till date people have a notion that insurance is an investment product. This very thought mars the scope, of insurance sector, but people are doing away with this notion and are recognizing insurance as a product for the security of their lives and after-life which can support the people who are dependent on them and the assets they hold. In this paper, we endeavor to focus on the major trends that are being witnessed by the markets and people of insurance sector along with the people who are the target customers for these insurance products.

Keywords: Insurance Sector, Reforms, Changes, Dynamics Of Market, Customer Satisfaction Etc.

Introduction

Insurance has become a household name, and the sector is constantly expanding its horizons on rapid speed. Despite this growth, the sector is facing volatile markets in present scenario of economic dynamism and uncertainty. The crisis induced by the pandemic inflicted by the worldwide spread of COVID-19 has taken everything in its stride, which is nothing sort of a hurricane having devastating affects not only for the life but for the businesses in equal measure and magnitude. All the norms pertaining to businesses, investment and regulatory norms has undergone changes and the insurers have to juggle between different channels to have improved results for their companies.

Aim of the Study

The paper aims to provide insight into the latest practices undertaken by the insurance sector, to upgrade the system followed for its operations and for settling the claims of customers.

Review of Literature

There is plethora of literature available in the area of insurance studies. The most prominent of the studies, which were found relevant for present work are given as under:

The paper of Cummins & Weiss in the year 1999, puts forward the measurements which were undertaken for taking as stock of the efficiency of stock and mutual organizational forms in the property-liability insurance industry using non-parametric frontier efficiency methods. They tested the managerial discretion hypothesis, which predicted that the market will sort organizational forms into market segments where they have comparative advantages in minimizing the costs of production, including agency costs. Both production and cost frontiers are estimated. The results indicate that stocks and mutuals are operating on separate production and cost frontiers and thus represent distinct technologies. The stock technology dominates the mutual technology for producing stock output vectors and the mutual technology dominates the stock technology for producing mutual output vectors. However, the stock cost frontier dominates the mutual cost frontier for the majority of both stock and mutual firms. The finding of separate frontiers and organization specific technological advantages is consistent with the managerial discretion hypothesis, but they also found evidence that stocks were more successful than mutuals in minimizing costs suggesting the existence of agency problems (Cummins & Weiss, 1999).

Borros et al., in the year 2005 provided the estimates pertaining to the changes in total productivity in their paper breaking this down into technically efficient change and technological change by means of data envelopment analysis applied to a representative sample of insurance companies operating in the Portuguese market. The aim of procedure was to seek out those best practices that will lead to improved performance in the market. Further the paper ranked the companies according to their change in total productivity for the period 1995-2001, concluding that some companies experienced productivity growth while others experienced a decrease in productivity. The implications arising from the study

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were considered in terms of managerial policy and had given practical insights to the insurance industry (Barros et al., 2005).

Appuhami (2007) in their paper aimed to investigate the impact of the value creation efficiency on investors' capital gains on shares. To investigate the impact of corporate value creation efficiency on investors' capital gains, the author used the data collected from listed companies in Thailand's stock market and Pulic's (1998) Value Added Intellectual Coefficient (VAIC TM) as the measure of intellectual capital and a developed multiple regression model. The empirical research found that firms' intellectual capital has a significant positive relationship with its investors' capital gains on shares. The findings enhance the knowledge base of intellectual capital and develop a concept of intellectual capital in achieving competitive advantages in emerging economies such as Thailand's (Appuhami, 2007).

The article of Botzen & Van Den Bergh, 2008, discussed the role insurance can play in adapting to climate change impacts. The particular focus was on the Dutch insurance sector, in view of the Netherlands being extremely vulnerable to climate change impacts. The usefulness of private insurance as an adaptation instrument to increased flood risks is examined, which is currently unavailable in the Netherlands. It was questioned whether the currently dominant role of the Dutch government in providing damage relief is justified from an economic efficiency perspective. Characteristics of flood insurance arrangements in the Netherlands, the United Kingdom, Germany, and France are compared in order to identify possible future directions for arrangements in the Netherlands. It was argued that social welfare improves when insurance companies take responsibility for part of the risks associated with climate change (Botzen & Van Den Bergh, 2008).

The study done by Dlugolecki in 2008 studied the climate change matters to the insurance sector. The paper put forward that in terms of underwriting, on one scenario, the economic cost of weather losses could reach over 1 trillion USD in a single year by 2040. The impacts will be worse in developing countries. Besides it recommended that the private sector needs to work with the public sector, as part of a triple dividend approach that coordinates adaptation, disaster management and sustainable economic development. Moreover, for asset management the indirect impacts are the key. Greenhouse gas emissions have to drop by 60 per cent by 2050, which means transforming the energy economy. Finance for renewables will reach 100 billion USD a year soon. Political uncertainty is a serious blockage to market forces, and the re-evaluation of assets and project returns is happening too slowly. Finally, insurers have a duty as ubiquitous players in the economy and society to help to shape climate policies in a responsible and effective way (Dlugolecki, 2008).

Acharya et al., 2013, summarized the literature on the impact of state subsidized or social

health insurance schemes that have been offered, mostly on a voluntary basis, to the informal sector in low-and middle-income countries. A substantial number of papers provided estimations of average treatment on the treated effect for insured persons. They summarized papers that correct for the problem of self-selection into insurance and papers that estimate the average intention to treat effect. Summarizing the literature was difficult because of the lack of (1) uniformity in the use of meaningful definitions of outcomes that indicate welfare improvements and (2) clarity in the consideration of selection issues. They found the uptake of insurance schemes, in many cases, to be less than expected. In general, they found no strong evidence of an impact on utilization, protection from financial risk, and health status. However, a few insurance schemes afford significant protection from high levels of out-of-pocket expenditures. In these cases, however, the impact on the poor is weaker. More information is needed to understand the reasons for low enrollment and to explain the limited impact of health insurance among the insured (Acharya et al., 2013).

Supervision et al., (n.d) discussed that as long as the volatile economic terms blend with a constantly changing competitive environment, the financial services will be at a crossroads and the future of a large number of companies will be uncertain. The lack of an adequate financial supervision can lead to a financial disaster, as the one from 2007 till 2008 which started a global, unprecedented, systematic, profound, lasting crisis and nevertheless it has revealed significant gaps inside the control and supervision of the financial services on national and international level. The article further presented the financial supervision terms and the systemic risk through a systematic integration analysis of the scientific specialized literature without forgetting the latest information provided by the supervisors (Supervision et al., n.d.).

Eling & Lehmann, 2018 based their study on a dataset of 84 papers and industry studies, and analyzed the impact of digital transformation on the insurance sector using Porter's value chain (The Competitive Advantage: Creating and Sustaining Superior Performance, The Free Press, New York, 1985) and Berliner's insurability criteria (Limits of Insurability of Risks, Prentice-Hall, Englewood Cliffs, NJ, 1982). They also presented future research directions from the academic and practitioner points of view. The results illustrated four major tasks the industry is facing: enhancing the customer experience, improving its business processes, offering new products, and preparing for competition with other industries. Moreover, they identified three key areas of change with respect to insurability: the effect of new and more information on information asymmetry and risk pooling, the implications of new technologies on loss frequency and severity, and the increasing dependencies of systems through connectivity (Eling & Lehmann, 2018).

(Mushunje, 2019) provided insights which

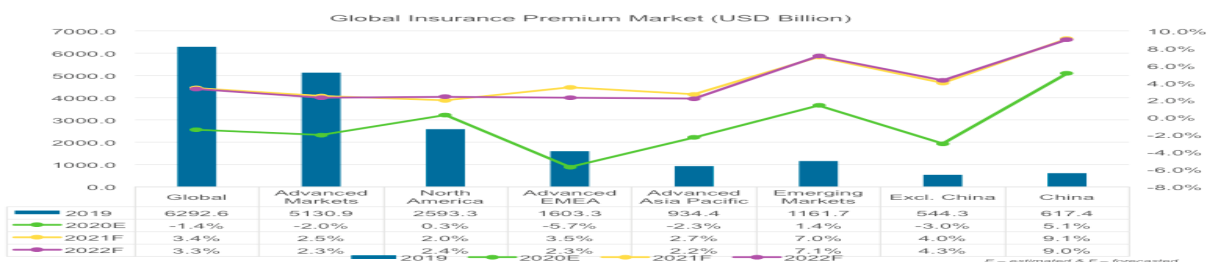
are known as the process of knowledge discovery, the process is crucial for the cases, which are to be dealt by special measures. Some of the cases, which are very serious and troublesome, and come under the category of fraudulent practices are to be managed by the authorities of the insurance sector and during these times it is the technique of data mining that comes very handy. These types of cases cannot be dealt through normal practices followed by the insurance sector, and the authorities therein, and they need to be tackled with special techniques. Data mining technique is used to detect the frauds at the earliest and help in the location of the fraudster. The method of data mining helps to quickly detect fraud, reduce operation cost and improves profit margins and increases competitive advantages. Moreover, the application of data mining techniques through sequential pattern mining can help much to predict any future and potential fraudulent cases. This is helpful in planning, and keeping the insurers alerted before the fraudulent risk occurs (Mushunje, 2019)

Protecting the future earnings of individuals, companies from uncertainties, and risks fastens a nation's gross domestic product. And this trend and practice was discussed by Ratnakaram et al., in 2021. The second decade (2D) of the current century (2D/twenty-first century) has witnessed a revolutionary, disruptive, technological advancement, innovative strategies, and financially engineered models in the marketing of insurance products across the insurance sector worldwide (Ratnakaram et al., 2021). The paper further revealed that some of these technologies and advancements are named as "FinTech, InsurTech, Blockchain Technology, Cryptocurrency, Robotics, Cloud Technologies, Data Science, Data Analytics, Big Data, Financial Engineering, ICTs (Information and Communication Technology), IoT (Internet of Things), AI (Artificial Intelligence), Machine Learning, Mobile Phones, Social Media sites, and Drown Technologies" [2]. To list and to explain these major disruptive technologies of the sector is the main purpose of this research work. The main focus was to study the specially designed financial engineering models in the process of insurance marketing. To conclude, the detailed role of financial engineering applications in the design, development, and execution of marketing models in the insurance sector was discussed. It used the descriptive-cum-exploratory research methodology is used (Ratnakaram et al., 2021).

Aznar et al., in 2021 in their paper put forward that during the last decade, the use of nano-materials, due to their multiple utilities, has exponentially increased. Nano-materials have unique properties such as a larger specific surface area and surface activity, which may result in health and environmental hazards different from those demonstrated by the same materials in bulk form. Besides, due to their small size, they can easily penetrate through the environmental and biological barriers. In terms of exposure potential, the vast majority of studies are focused on workplace areas, where inhalation is the most common route of exposure. The main route of entry into the environment is due to indirect emissions of nanomaterials from industrial settings, as well as uncontrollable releases into the environment during the use, recycling and disposal of nano-enabled products. Accidental spills during production or later transport of nanomaterials and release from wear and tear of materials containing nanomaterials may lead to potential exposure. In this sense, a proper understanding of all significant risks due to the exposure to nanomaterials that might result in a liability claim has been proved to be necessary. In this paper, the utility of an application for smart phones developed for the insurance sector has been validated as a solution for the analysis and evaluation of the emerging risk of the application of nanotechnology in the market. Different exposure scenarios for nanomaterials have been simulated with this application. The results obtained have been compared with real scenarios, corroborating (Aznar et al., 2021).

Broad Outlook for 2021

There are many trends which became visible and the outlook for the year 2021 can be discussed as one of the positive ones. As per the estimates of Swiss RE, the premium that was calculated for the insurance business in the year 2019 stood at USD 6.3 trillion. And it is estimated as per the forecast recovery that it will stand at a growth percentage of 3 percent in the year 2021 and 2022. The markets of United stated and Asia Pacific are expected to outperform the other markets and lead to better results for their economies in selling the life insurance products. Similarly, the market for the products of non-life insurance products is expected to increase with a growth percentage of 6.9 percent for both these years. It can be amply seen from the figures depicted in the following diagram.



Note: The global insurance premium market has been segmented into Advanced Markets and Emerging Markets.
Advanced Markets – North America (US and Canada), Advanced EMEA (UK, France, Germany, Italy, Netherlands, Ireland, Spain, Switzerland, Luxembourg, Sweden, Denmark, Belgium, Finland, Norway, Austria, Israel, Portugal, Malta, Liechtenstein, Greece, and Cyprus), and Advanced Asia Pacific (Japan, South Korea, Taiwan, Hong Kong, Australia, New Zealand, and Singapore).
Emerging Markets – Excl. China Markets includes Latin America and Caribbean, Emerging EMEA, and Emerging Asia Pacific countries.

Some of the key strategic and operational priorities, which have been forwarded for the insurance sector and people operating there for the year 2021, are given as under:

Automated Claim Management

This is one of the latest and the so called best improvements, which have taken in insurance sector and the business conducted therein in its strong stride. It has led to the increased use of automation and digital processes for the optimization of businesses in order to have and receive strong ROI. The survey done by ITONICS puts forward that the claims that are settled digitally will be able to use robotics and have the possibility of strong delivery and productivity enhancement. This will eventually lead to lesser amount of costs to the tune of 20 to 40 percent.

Further the survey done by McKinsey for the process of the automation and RPA as practiced and undertaken by insurance companies and people

dealing in this field lead to reduction in the overall cost of insurance and the cost of claims by as much as 30 percent.

Moreover, the claim which is done on digital platforms leads to higher rate of customer satisfaction as they receive better services at speedy rate and with lesser wastage of time and energy. The seamless experience of using the digital mode of claiming the policy by the customer has lead to better customer feedback and better satisfaction rates as compared to the previous ones. The FinTechs and InsurTechs now go beyond just a few chatbots, offering personalization in services as well as omni-channel support.

Figure 2 given below provides the latest trends in the insurance sector and the practice followed for the improvement of services provided by them.

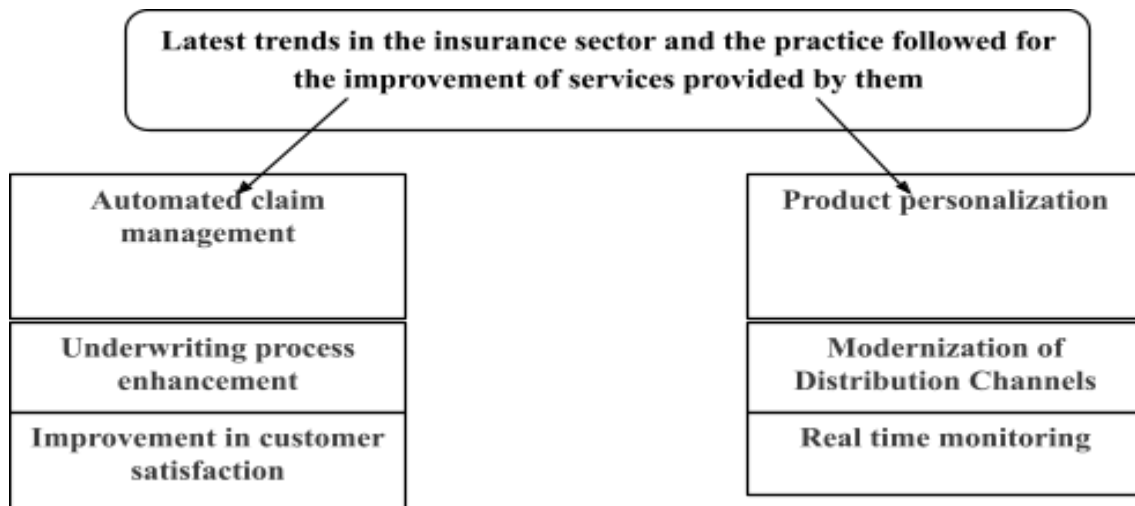


Figure 2: Latest trends in the insurance sector and the practice followed for the improvement of services provided by them.

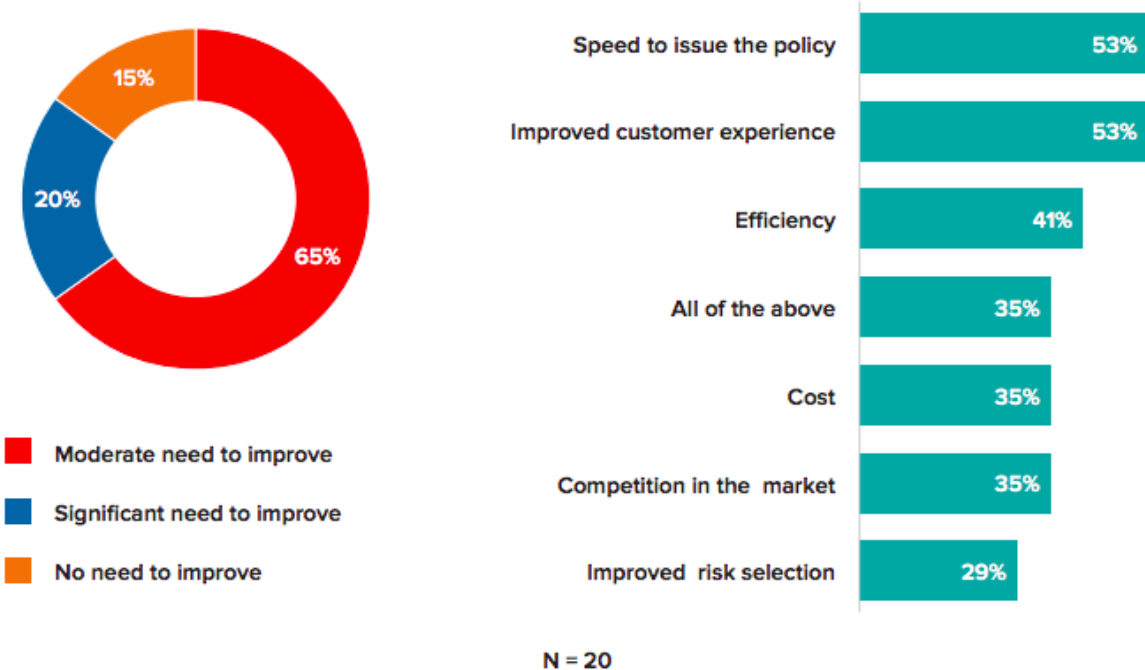
Product Personalization

Product personalization is yet another improvement in the sector of insurance and is enthusiastically taken up by all the companies with full swing. As per the reports of LivePerson survey and its findings, as many as 71 percent of the customers availing insurance services like the AI powered messaging and live chats.

Underwriting Process Enhancement

The enhancement of the underwriting process is the step which promises rich dividends to the insurance sector in coming yeas. As per the survey done by RGA 85 percent of the customers surveyed indicated towards the urgent requirement of the underwriting process enhancement.

Figure 1: Perceived Areas of Need to Improve Underwriting Performance



Source: RGA survey

Modernization of Distribution Channels

The modernization of distribution channels was much needed move to be taken by the insurance sector and this has attracted and satisfied as many as 70 percent of the ongoing increase in client engagement and that too in the covid-19 period.

Improvement in Customer Satisfaction

The companies have taken a note of impact of customer satisfaction on their sales and overall performance and so they are increasingly resorting to the adoption of measures, which can guarantee better satisfaction and services for the customers.

Real Time Monitoring

The companies are no longer dependent on their managers for taking feedbacks with the help of feedback tools, which were age old and cumbersome, but are now able to receive the feedback with a click of a button with the help of digitization of feedback process, which has helped them in the conduction of the overall monitoring of the operations at real time level.

Conclusion

It can be seen from the foregoing analysis with the help of figures and charts that insurance sector has girded up its waist to come up as a winner in the turbulent times as such, as of now that are inflicted upon by the pandemic and its ill effect. The insurance sector has taken up many measures to increase the faith of insurance customers on them. This has been done to meet out the challenges that the insurance companies are destined to face in an era of rapid changes, which are sure to happen with the advent of digital revolution.

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