



## Rejuvenating the Insurance Industry

This editorial is based on “[Modernising insurance fraud detection tools](#)” which was published in the Hindu on 19/03/2023. It discusses the Issues of rising fraud in the insurance sector and ways to modernise insurance fraud detection tools.

**For Prelims:** Insurance Regulatory and Development Authority of India, Fraud Risk Management, GDP, Insurance Sector, Digitalization

**For Mains:** Rejuvenating the Insurance Industry, Challenges with the Insurance Sector in India

The **insurance sector has undergone unprecedented changes in response to the pandemic, necessitating rapid operational adjustments** to minimise business disruptions. Insurers responded quickly to this crisis by increasing the digitalisation of sales, customer service, and claims management and enabling their staff to operate in a hybrid working model.

**India is on its way to become the sixth largest insurance market in the world**, over the next decade with the insurance premiums growing at an average of 14% per annum in nominal local currency terms. However, **the Insurance Sector is facing several challenges** which need to be addressed.

### What is the Current Status of Insurance Sector in India?

- According to the [Economic Survey 2022-23](#), **India's insurance market is poised to emerge as one of the fastest-growing markets globally** in the coming decade.
- As per the **insurance regulatory body, IRDAI, insurance penetration in India increased from 3.76% in 2019-20 to 4.20% in 2020-21**, registering a growth of 11.70%.
  - Also, the insurance density increased from USD 78 in 2020-21 to USD 91 in 2021-22.
- The **life insurance penetration in 2021 was 3.2%**, almost twice more than the emerging markets and slightly above the global average.

### What are the Challenges with the Insurance Sector in India?

- **Low Penetration:**
  - The **insurance penetration rate in India is low as compared to other countries**. This is due to low awareness and a lack of trust among people towards insurance.
    - Around **65% of India's population, amounting to over 90 crores, inhabits rural parts of the country**. However, only 8%-10% of rural India has life insurance coverage.
    - According to the [Insurance Regulatory and Development Authority of India \(IRDAI\)](#), the penetration of the Indian insurance industry is less than 5% of the GDP. In terms of penetration, **India is far behind the global average of 7% of the GDP**.

- **Lack of Product Innovation:**
  - The insurance sector in India has been slow in product innovation. Many insurance companies offer similar products, which leads to a lack of differentiation in the market.
- **Fraud:**
  - Fraud is a **major challenge in the insurance sector in India**. Insurance fraud includes false claims, misrepresentations, and other illegal activities.
  - **Fraud can often be facilitated by weaknesses in an organization's systems and controls**, which can create opportunities for those intent on committing fraud.
  - Moreover, **digitisation and customer-centric policies may have inadvertently provided opportunities for fraudsters to commit identity theft**, misrepresentation, and fraudulent claims.
    - **More than 70% of Indian insurers indicated a marginal to a significant increase** in frauds in the past two years.
- **Talent Management:**
  - The insurance sector in **India faces a talent shortage. The industry needs skilled professionals in areas** such as actuarial science, underwriting, claims, and risk management.
  - Attracting and retaining talented professionals is a challenge for the industry.
- **Slow Rate of Digitalization by Incumbents:**
  - The insurance sector in India has been slow to adopt digitalization compared to other industries, which has resulted in several challenges such as inefficient processes, lack of transparency, and poor customer experience.
- **Lack of Automation:**
  - Many **insurance companies in India still rely on manual processes for tasks such as underwriting**, policy servicing, and claims management, which can be time-consuming and error prone.
  - This can result in delays, higher costs, and dissatisfied customers.
- **Claims Management:**
  - The **claims process in India is often seen as complicated, slow, and opaque, which can lead to customer dissatisfaction** and loss of trust in the insurance industry.
  - This can be due to a lack of transparency, inefficient processes, and poor communication with customers.

## What should be the Way Forward?

- **Leveraging Technology:**
  - Digitalization **should be made a target to achieve across the value chain**, with an order of priority - to reduce cost, improve efficiencies & support further ecosystem developments.
  - **Technology would need to be leveraged to create and maintain higher employee efficiency**. Upskilling programs can be established that develops a mix of soft, technical and digital skills.
- **Aligning with Dynamic Changes in Customer Behaviour:**
  - Players **would need to be aligned with dynamic changes in customer behaviour & preferences** and manage perceptions by showcasing fiduciary responsibility, like offering quick personalized products that can be prioritized over mass-product offerings to give customers more flexibility.
- **Optimising Usage of Data & Analytics:**
  - There's an urgent **need to optimise usage of Data & analytics across functions for maximum efficiency**, especially in the case of underwriting & claims.
- **Simplifying Claims Management:**
  - The **claims management process would need to be simplified for the insurer and insured**. Strategic partnerships can be considered to manage scale and gain access to a further set of partners.
- **Adopting Hybrid Distribution Models:**
  - A new approach to distribution is necessary, one that integrates technology and prioritizes high-potential markets. To achieve this, **hybrid distribution models that combine human expertise and technology** can be employed, with a particular emphasis on serving rural markets.

▪ **Tackling Fraud:**

- The key objectives of an **effective, business driven Fraud Risk Management (FRM) approach should encompass controls that prevent the occurrence of fraud, detect fraud**, and provide an effective response mechanism to limit the consequences.
- An **effective way to counter fraud is through effective data management.**
  - The first step for insurers is to organise their data effectively by identifying the relevant data sources and integrating them on a common platform or a data lake wherein accurate, complete, and appropriate information is stored.

***Drishti Mains Question***

What are the major challenges facing the insurance sector in India, and how can they be addressed?

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