‘Insurance companies should be able to **unlock services to show value’**

Varun Dua, Founder and CEO, Acko General Insurance Limited, believes insurance companies need to transition from being complex product companies to trust and brand companies. In an online interview with **Joydeep K Roy**, Partner and India Financial Services Advisory and Global Health Insurance Leader, he outlines the key factors that could ensure wider reach and lead to enhanced customer experience.

Varun Dua (left); Joydeep K Roy (right)

Excerpts from the interview

Joydeep Roy: Good afternoon, Varun. It's a pleasure to have you here with us. Having known you for two decades and having seen the passion you bring to the insurance industry while being single-mindedly focused on creating value, I wish to ask you, how do you feel about this journey?

Varun Dua: Yes, Joydeep, we have known each other for a while, and it's been a long journey. Over a period, one doesn't typically tend to get attached to a domain like insurance, but I did. More than passion, I guess it's the attachment to the insurance business that made me explore the domain and find better ways to provide solutions. My journey, as a professional providing software services to this industry to selling insurance products to now developing our own products, has been an exciting one altogether, and I continue to remain attached to this space.

Joydeep Roy: That's true, Varun. At a time when some people didn't believe that the youth of India could get attached to the insurance industry, you had a holistic view of the market, the protection gap, and the gap in efficiency. I have been working with you, and I think that your experience over the years in this domain has made your journey unique. What are your views on the protection gap, which most insurance companies believe will provide a lot of growth potential?

Varun Dua: Yes, I agree that the protection gap exists. If you look at the type of products in the Indian insurance market, you will realise that most of them are savings based, and life insurance products, too, haven't been able to penetrate rural India. I believe that the protection gap is much larger than what the numbers say. I think that the insurance industry in India is mostly saturated in 30–50 cities and there is lack of awareness about insurance products in tier-3, tier-4 places and rural areas, and that restricts our ability to enter those markets as we have not found that magic wand in terms of cost structures and types of products that we can offer there.

Even our company is not focused on that segment as we are still trying to concentrate on the digital population, which is savvy and aware. It needs a high degree of focus to enter the rural markets and create awareness in an environment where frauds are rampant. As we are trying to find solutions for the same, I strongly believe that we need companies which specifically focus on rural markets, backed by specialists.

Joydeep Roy: There is a lot of interest in the insurance industry from the private equity (PE) sector. Your company is one of the first to be a PE-invested company. Do you think investment by the PE sector would help you bridge the protection gap or are there any challenges you foresee due to investment by PE firms?

Varun Dua: Based on my conversations with investors in the last five to six years, I understand that they are bullish on India, especially the insurance industry. They look at the insurance industry in India as a sunrise sector and they are eyeing tremendous growth in the domain in the next two to three decades.

However, there are two aspects I would stress upon where we face challenges, the first one being the regulatory aspect and the second one being market structure. I would first like to talk about the challenges related to market structure. I believe that a lot of capital goes into growing a business in the highly competitive 30–40 cities, so every new infusion of capital is competing within that market base, catering to the same set of population.

This is creating margin pressure for all players, and they try to undercut each other. There are no new models yet to reach out to the uncatered population which has other cost structure challenges.

Therefore, I believe that PE firms are hesitant in the wake of capital competing in the same segment which makes the return profile probably less lucrative.

On the regulatory side, we are seeing some developments like scrapping of complicated laws and regulations related to PE investment. Regulators have also been meeting up with investors and courting them. Steps should be taken to make it easier for PE firms to invest more in specialist companies, which would improve coverage of the unserved population, and this may include some tax breaks or lower capital requirements. The last thing I would like to point out here is that the government needs to bring some reforms in the public sector undertaking (PSU) insurance sector, at least in the general insurance segment, as most PE investors think that they are competing against the government when they do general insurance business. The pricing set by PSU insurance companies is difficult for private companies to match or support to compete.

Joydeep Roy: I concur with you, Varun. The government has also announced the 'insurance for all goal' by 2047 as India marks the 100th year of its Independence. What major reforms do you think are required to achieve that target?

Varun Dua: Structural changes are needed to get insurance for all and to achieve higher penetration. I believe the insurance industry in India is highly capital inefficient. For example, in spite of COVID-19 being such a big tragedy, the insurance industry by and large was solvent. The fact that such a big global disaster doesn't stress any insurer's solvency means that we are over-capitalised and that extra capital, which has been locked away, could be used for growth.

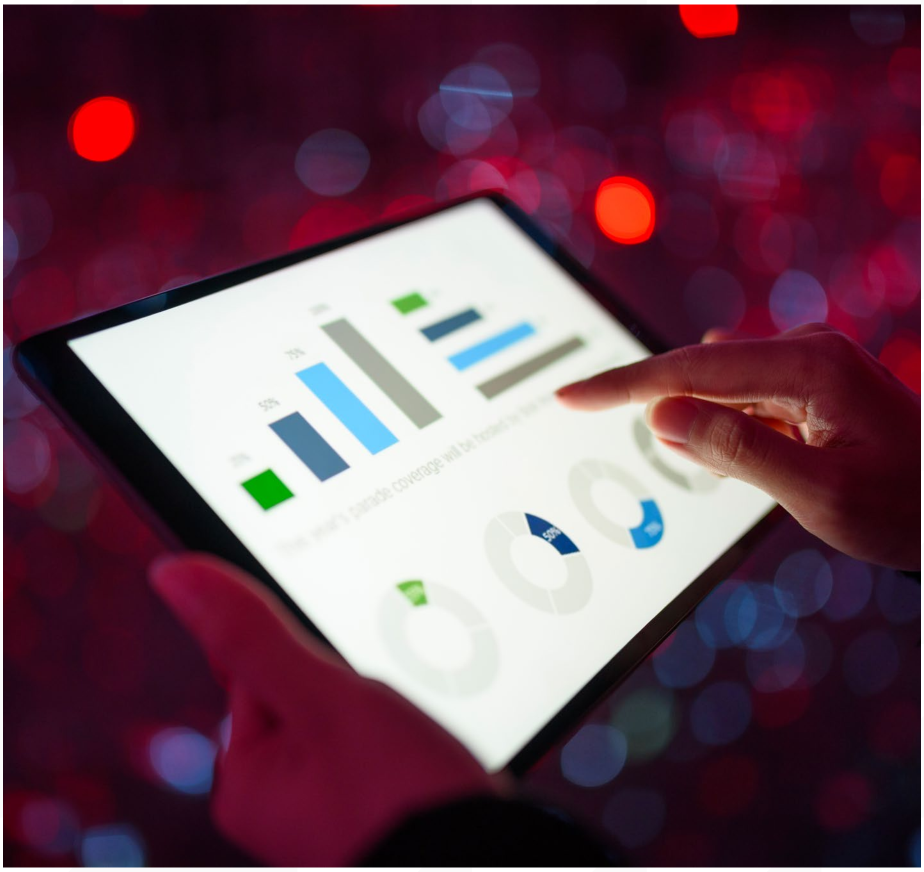
Today, we are hearing about a slew of changes like insurance adding value to people's lives and generating income. We are an emotional race, and we don't like to talk about wills and estate management. Companies are now offering estate planning, trust management, will planning services, along with insurance, in an organic way and at the right moment. Customers need to receive value from an insurer on an ongoing basis and not just at the time of claim.

Customers often don't see value in insurance products. One general example I can provide is of BPO employees who, despite belonging to the low-to-middle-income group, are willing to pay high EMIs on expensive phones but are hesitant to spend that amount on their health or life insurance.

Hence, if there are some regulatory reforms which can open doors for insurers to provide myriad services, they can show value to customers and not just preach value. Another area that I would like to talk about here is risk-based solvency, which I hope will come in soon. I think risk-based solvency, value-added services and ability to cross-sell other financial products would make insurers relevant in the eyes of consumers and would help penetrate the uninsured population. I am glad that all these points are under discussion with the regulators. However, it is yet to be seen how everything unfolds, the regulations come into play and companies implement them. We are just excited that things are moving in the right direction.

Joydeep Roy: There's a trend of emergence of common platforms for claims and sales to show clients rates and conditions. Do you think these common platforms for all insurers will play a role in market penetration?

Varun Dua: We haven't seen such platforms in the past. However, Unified Payments Interface (UPI), as a common platform for payments, has done well. As an industry, we are excited for this common platform as it has many potential benefits, but there's also one challenge. Compared to insurance, lending and payments do not involve complex transactions and inherently that structure works. If I make payment to a street vendor, it's easy to do so through UPI. Lending may involve variables like term of the loan, tenure of the loan, cost of the loan, interest rate – all of which influence 95% of the decision making. In the case of insurance, there are too many variables involved. All policies are not the same, coverage can be customised, life stages are different. Payment and lending are very standardised use cases. If there are fewer regulations, insurance companies can come up with products which can be more personalised and suited to needs. On the one hand, there is a slightly complex use case which needs to be personalised and on the other, there is a standardised use case on a common platform. There is something of a dichotomy as the use cases of payments and lending are far simpler. However, for simpler insurance products like auto insurance and basic life insurance, the dichotomy can be addressed, and the common platform can be used efficiently and probably the platform can also cater to the untapped population of India as I earlier said. But I am doubtful about whether the common platform will become the only way or the predominant way to transact.



Joydeep Roy: Interesting take, Varun. You have been making a lot of simplifications on market penetration through embedded insurance. Do you think embedded insurance has a huge role to play in the coming days?

Varun Dua: I believe embedded insurance is a good starting point for product trials. We use it for customers who are new to our brand. If they try a product, the cost of the trial comes down. We ensure that such embedded products have a claims experience because that's when people will trust the brand. A product with lower claims would not be of value to the customer.

Joydeep Roy: Agreed, Varun, this experience is important and brings brand visibility and relevance. How can the insurance industry be more relevant in the light of ESG guidelines which are applicable to all kinds of companies? Do you think insurance companies can make ESG more relevant for their clients, constituents and customers?

Varun Dua: Healthcare costs in India, although affordable, are arbitrary when compared to those globally. During COVID, we saw that. Even when we process claims, we find many costs which are unnecessary. Globally, governance steps in when it comes to a payer-provider relationship. When payers become strong and large, and most of the expenses go through insurance companies, it automatically creates a balance in terms of transparency and costs as institutions keep a check on each other. I think Ayushman Bharat is a great step, and it has standardised some costs because as the amount goes through the payer and to the provider, the checks and balances automatically come in.

On the environment side, one important thing that we, as a company, are interested in is the carbon footprint of the cars we are insuring. I think we can explore if a part of our business goes to set off the carbon footprint of the cars we are insuring. The data, size and scale of the insurance industry along with its ecosystem can play a part in the matter of healthcare and environmental costs, which may be difficult to quantify. However, I believe it's too early to say so as many companies haven't ventured into this territory. For example, If insurance and FASTag can be used together to reduce waiting time at toll booths, or track non-compliant vehicles, it can also save fuel. But not only insurance, ESG is also at a superficial level for many industries.

Joydeep Roy: There are two big challenges for the insurance industry: one being the complicated products and the hustle it takes to sell them and the other being the shortage of good talent. How do you tackle these challenges?

Varun Dua: I think the insurance industry has gotten into the narrative that it needs complex selling to get customers, but at Acko, we are trying to change things. I think there are other aspects in a business: your product can be complex but there are also factors like trust, the brand. A lot of technical stuff can probably not be as important to customers if you are providing value to them. So, if you create trust and experience, the customers will buy your products. Social media today is filled with complaints against insurance companies. Although the intention of most companies is not wrong, they eventually settle the claims, but the process they adopt is painful for customers. Hence, customer experience needs attention.

On the second part of your question, in the early days, we did face some problems in getting talent as you said earlier, but I believe the newer generation of employees – for instance, people born in the 90s or who are in the early or mid-stage of their career – are starting to get into management positions and they are more inclined towards doing good and not just making money. It was difficult to align them to policies or conditions which aren't good for consumers as they believe in fairness, doing the right thing. They consider a job and money to be a part of that greater thought. The newer generation wants to add value while making money in the process. So, if an organisation provides them with that type of culture, they stick with it or else they look for other opportunities.

As I earlier said, if you have built trust and brand value, employees feel a sense of belonging and it all leads to better synchronisation of things. That's how we have also tried to build our workforce. We made sure to hire candidates from outside the insurance industry to get fresh perspectives. They can learn about the domain in six months, it's not that hard. We need more and more new people who can bring fresh perspectives.

On the tech front, it is imperative for technology to be a part of any business, so the ability to hire people who are tech-focused is the need of the hour. A business may get obsolete sooner or later if it is not focusing on technology.

Joydeep Roy: **Thanks a lot, Varun, for the interesting insights and for helping us understand how the insurance industry is focused on its future. It was a pleasure talking to you. Thank you for being with us.**

Varun Dua: Thanks a lot, Joydeep. It was my pleasure too.