

43rd India Fellowship Seminar

Date: 13th and 14th February 2025

Market Entry Strategy

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Case Study – Life Technical (Group 3)



- You are a consulting actuary advising clients on a variety of matters.
- A multinational insurance company (MNC) looking to enter the Indian life insurance sector has approached you seeking guidance in this area.
- The MNC is aware that there are already more than two dozen life insurance companies in the market, some large-sized and listed on stock exchanges, whilst others medium and small-sized.
- The MNC is exploring different avenues to enter the sector, including a greenfield operation and a brownfield operation.
- The MNC is also looking at a differentiated business strategy, which would avoid them having to compete with the existing life insurance companies and yet achieve the desired scale and profitability, with acceptable level of capital investment, and over a finite period of time.

Market Entry Strategy

Greenfield
Operation

Brownfield
Operation

Regulatory Requirements for Market Entry Strategy

Regulatory Requirements - Greenfield

- Registration Requirements:
 - Prospective insurers must submit an application under the IRDAI (Registration of Indian Insurance Companies) Regulations:
 - R1 Stage: No-objection Certificate (NOC) & Initial Approval
 - R2 Stage: Formal application for registration
 - R3 Stage: Certificate of Registration (COR)
 - Upon approval, R3 clearance is granted, and the insurer must commence operations within 12 months.
- Business Plan Submission:
 - Outline financial stability and capital structure
 - Define business model and product offerings
 - Ensure compliance with public interest and regulations

Regulatory Requirements - Brownfield

- Regulatory Compliance of Target Company:
 - Review financial health, solvency margin, and liabilities
 - Assess compliance with regulatory requirements
 - Evaluate management and promoter fit with regulatory standards
- Protection of policyholders:
 - Inform policyholders about the merger and potential policy changes
 - Publish notice and provide access to relevant documents
 - Compensation for reduced or changed policyholder rights based on residual value, as determined by IRDAI

Regulatory Requirements

Capital Structure

A life insurer must have a minimum paid-up equity capital of Rs. 100 crore.

- Equity shares subject to lock-in periods
 - Lock-in depends on investment timing and investor role (promoter or investor)
- Due diligence on business track record and financial strength
 - Assess capital-raising ability and shareholding pattern
 - Ensure regulatory compliance and solvency support

Solvency Requirements

A life insurance company must maintain a minimum solvency margin of 150%.

- Ensure financial stability and ability to meet policyholder obligations
- IRDAI approval required for share transfers or restructuring affecting solvency
 - Post-merger solvency assessment required
 - IRDAI may enforce measures if solvency is at risk

Greenfield Route

Brownfield Route

Regulatory Requirements

Fit and Proper Criteria

- Promoters and key management must meet IRDAI's 'fit and proper' criteria
- Criteria is outlined in Schedule 1 of IRDAI (Registration, Capital Structure, Transfer of Shares and Amalgamation of Indian Insurance Companies) Regulations, 2024.

FDI Limits

- FDI in insurance sector regulated by Indian Insurance Companies (Foreign Investment) Rules
- Foreign promoters and investors' combined equity cannot exceed 74%*
- Indian partner must hold at least 26% in joint ventures

** FDI limit has been increased to 100% as per the latest budget for FY2025-26*

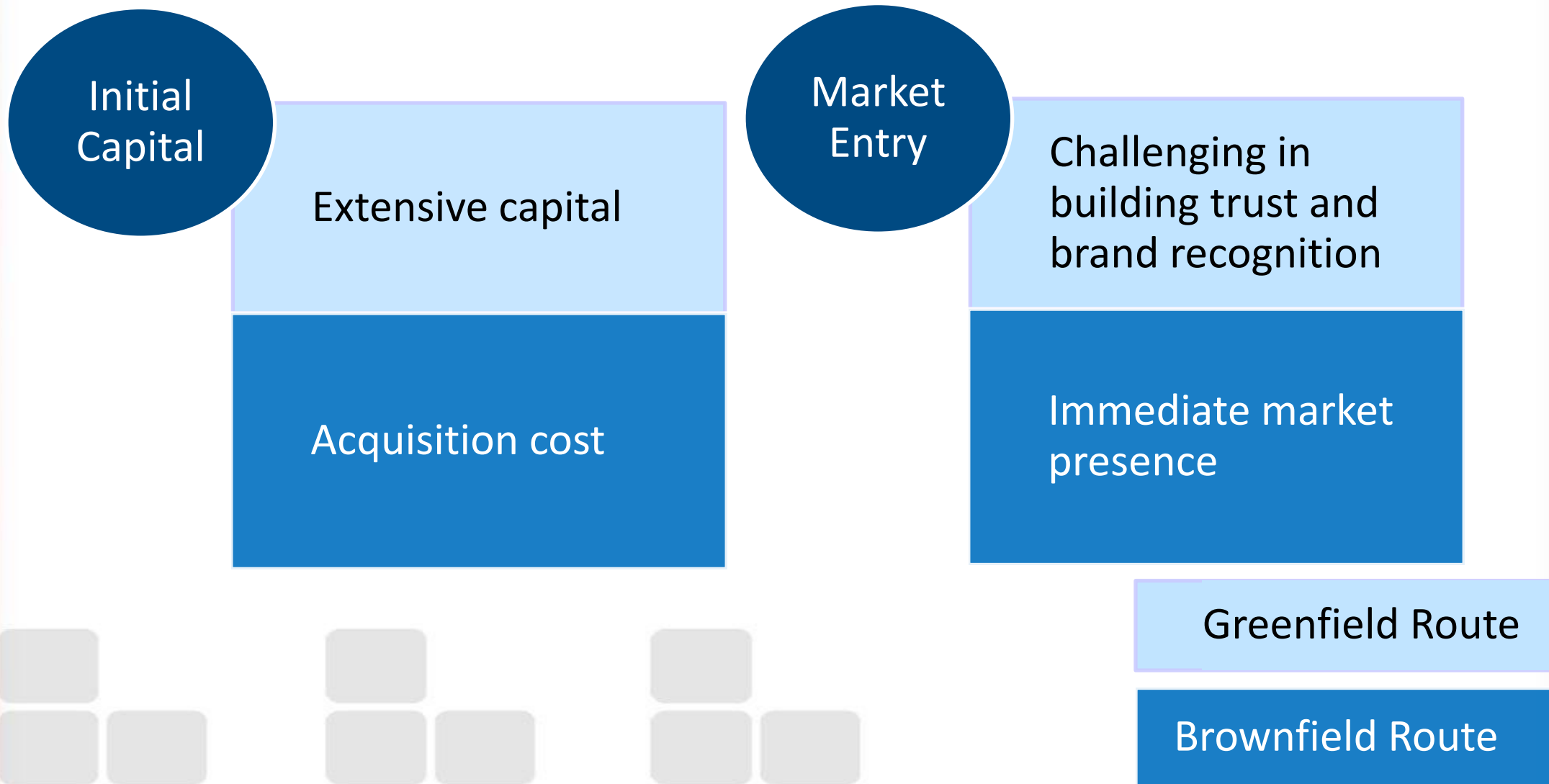
Regulatory Requirements

Reporting Requirement

- Submit quarterly and annual financial reports to IRDAI (solvency margins, business performance)
- Notify IRDAI of changes in shareholding, management, or policyholder interests
- Comply with foreign investment limits and submit compliance reports on capital adequacy and regulatory adherence

Greenfield v/s Brownfield

Greenfield V/S Brownfield



Greenfield V/S Brownfield

Integration

Challenge to set the company from scratch; e.g., distribution channel

Benefit from synergies in operational and technology

Expertise

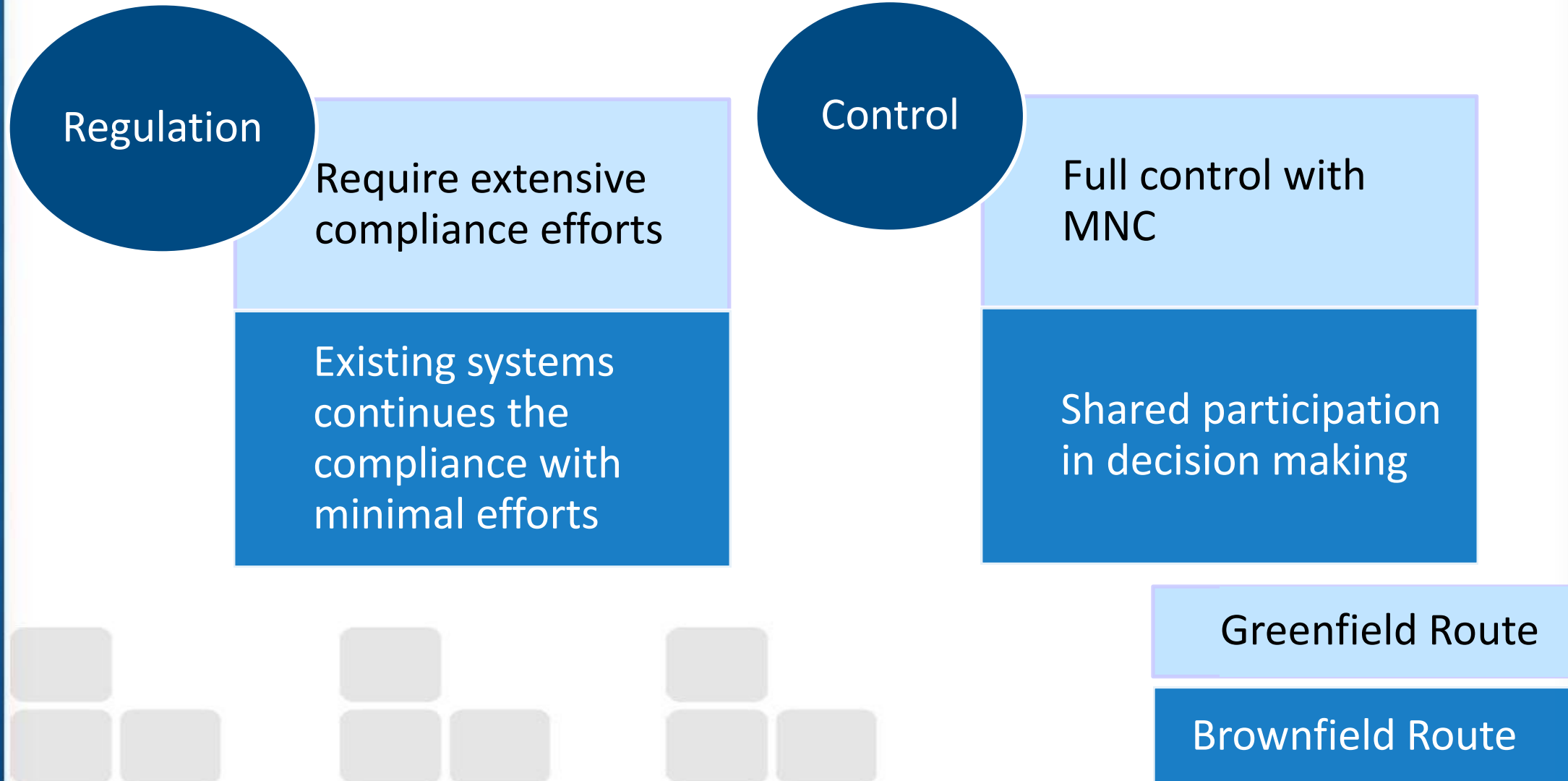
International business strategies and global market

Expertise in local market dynamics

Greenfield Route

Brownfield Route

Greenfield V/S Brownfield



Recommendation On Route

BROWNFIELD ROUTE

MNC Objectives

Acceptable
level of
capital
investment

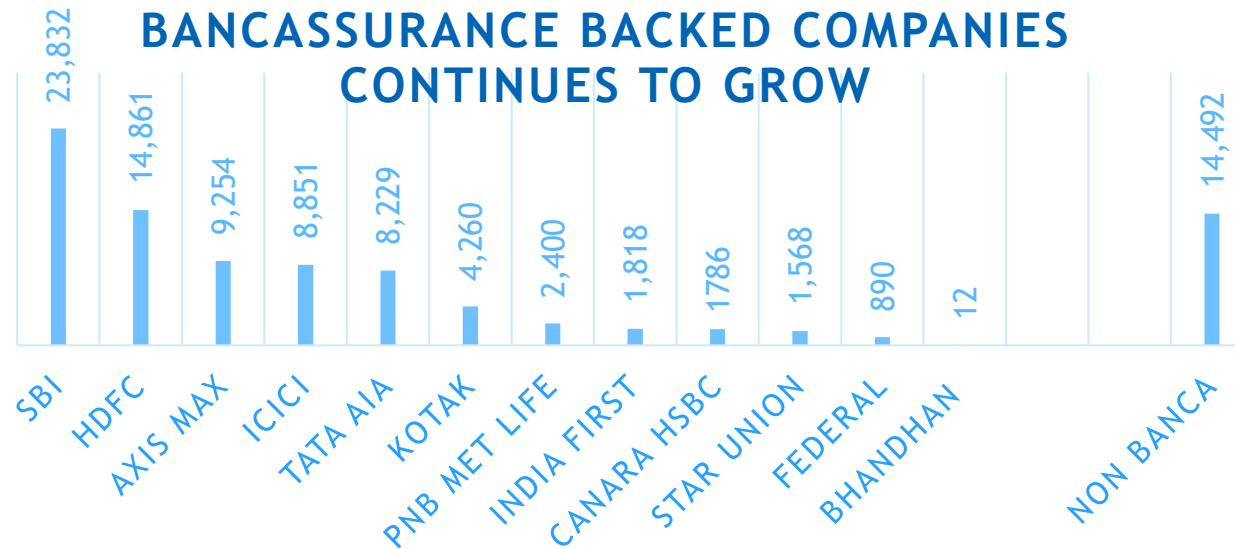
Profits over
a finite
period of
time

Differentiate
business
strategy

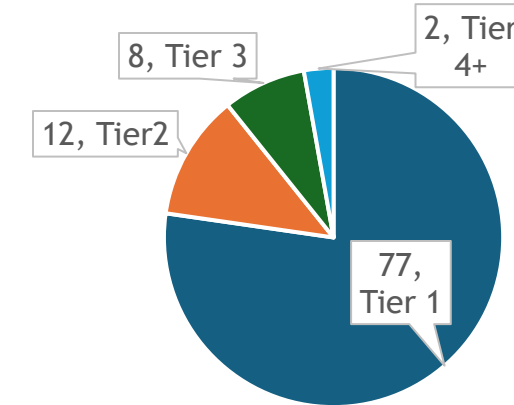
- ✓ Shorter pay back period
- ✓ Finite capital
- ✓ Understanding of regulatory compliance
- ✓ Easier market penetration
- ✓ Leveraging existing infrastructure
- ✓ Understand the local customer behavior

Business Strategy

Competitive Landscape



INDIAN LIFE INSURANCE DISTRIBUTION BY TIER



- Over the decades; Indian Life insurance industry has seen change in distribution mix:
 - Bancassurance Contribution; moved from 10%-20% contribution in 2005-10, to ~55% for FY 23-24.
 - Agency channel has been the backbone of the industry; however declining market share for essentially on account of high costs. (Stands at ~22% for FY 23-24)
 - Direct channel with relatively low costs has also attracted many companies in. Standing today contribution is ~16%.
- Digital channel - An emerging and dynamic market place; with a huge potential on account of increasing digital consumers.

Distribution Roadmap

Partner with Bank with regional presence +

Platform with strong digital presence

Leverage
existing
customer base

Personalized
Customer
solutions

Cost efficient in
the form of
banca and
digital

Deeper
Penetration
across tiers

Deeper
Understanding
of the Customer

Enhance
operational
efficiencies

Product Strategy and Innovation

Income Solution Plans

- Variable Annuity: to cover the retirees in the urban population
- Deferred Annuity: for earning population to accumulate the retirement corpus
- Reverse Mortgage: to offer income to rural population having assets in the form of property/land but not much retirement corpus

ULIP Health

- Offers life cover plus health insurance and wealth accumulation (with min SA guarantee)

Protection Plans

- Low cost for deeper penetration
- Leveraging the AI and data for faster and more efficient underwriting.

Product Strategy and Innovation

Cross Pollination to existing customers - leveraging AI

Endowment (Traditional): provide assured benefit at the end of the policy term on non par platform

Pure Term: provide death benefit during the policy term

ULIPs (Life): Market related return with guaranteed benefit on death

Evolving Customer behaviour

Greater Engagement

Potential to interact with customers in a more dynamic, technology- driven manner

- Ecosystem play to engage via both DTC and B2B2C
- Desire for centralized, insurance ~ adjacent platform to manage protection (health, wellness & financial)
- Customers willing to share data for interactive experience

Personalisation

Is a priority; customers want offerings that are unique and tailored

- Deeper understanding of the customer
- Hyper- targeted marketing
- Micro-segment risk profiling & tailored pricing
- More tailored protection specific to their needs

Simplified Services

Serve in many ways; Insurers must serve customers as they want to be served

- Simplicity and convenience maximised
- Seamlessly digital customer lifecycle
- Human touch customer support when requested
- Continuous optimisation of customer experience

Regulatory Changes To Attract New Players and Increase Insurance Penetration

Capital

Risk based Capital Regime

- Better Risk Measurement and Risk Management
- Enhanced Solvency and Financial Strength
- Global Alignment and Promotes Market Discipline

Reduce Minimum Capital Requirement

- Based on Tiered system or Business model
- Encourage Market Entry, innovation and supports Market Growth
- Allow smaller players to enter the market, particularly in underserved segments
- Alignment with Global Practices

Capital

The table below shows the MCR of some of the Asian countries:

Country	Minimum Capital Requirement	Approximate INR (converted)
India	INR 1000 million	INR 100 crore
Singapore	SGD 10 million	INR 64.4 crore
Japan	JPY 1000 million	INR 56.6 crore
China	CYN 200 million	INR 23.8 crore
Hong Kong	HKD 2 million	INR 2.23 crore

Source: Milliman Report July'19

Products

Alternate Product Types

- Reverse Mortgage
- Variable Annuity without minimum guarantee
- Health Indemnity

Premium and Policy Term Flexibility

- Better Alignment with Customer Financial Needs and Circumstances
- Enhancing Customer Retention and Attraction
- Improved accessibility to life insurance for a broader range of consumers

Distribution

Tied Agents offer products of multiple insurer

- Access to a Broader Range of Products and Better Matching of Products
- Financial Incentives for Agents and Reduced Attrition Rates Among Agents
- Encouraging Healthy Competition Among Insurers
- Prevents Monopolistic Practices

Structured Incentive

- Drive commission and incentives basis distributor persistency thus reducing mis-selling
- Encourage long-term client relationships, while ensuring fairness and transparency in agent compensation

Investments

Equity Derivatives

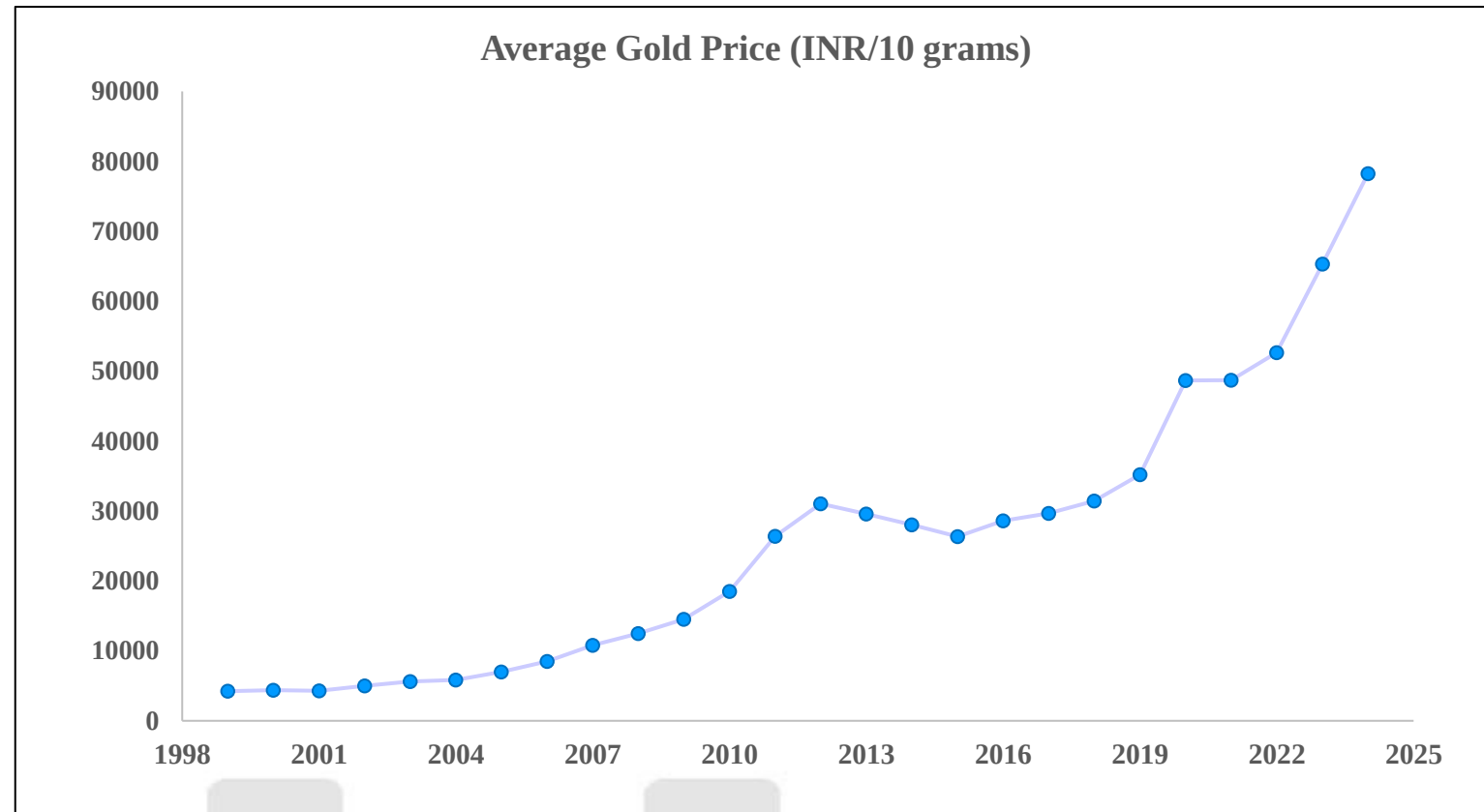
- Mitigate the potential losses from adverse price movements, protecting the solvency position
- Cost-Effective Risk Management, thereby increasing returns of the Shareholders and Policyholders.

Gold - Asset Class

- Provide stable returns for insurers over medium to long term
- Hedge against inflation
- Diversification from traditional asset classes and highly liquid
- Multiple options to choose from - Physical gold, Digital gold, Gold ETF's, Gold Mutual funds

Investments

The chart below shows the historical trends in gold prices:



Source: Groww Report

Q&A

**THANK
YOU**