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BPO IN THE INDIAN LIFE INSURANCE INDUSTRY: NEED OF THE HOUR

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ABSTRACT

The time difference between the Greenwich and India provides scope for the India operations to work around the clock, 365 days. In the insurance industry, high volume and low severity claims are the ones most apt to recognize saving through BPO. This enables companies to better focus on the higher risk and lower volume claims. BPO can also reduce insurance back-office costs by 30 per cent to 50 per cent. It also eliminates the need to invest heavily in the latest technology and skills. The recent business trends have generated more interest among insurance carriers than business process outsourcing. The combination of unrelenting prosure on expenses, vast improvements in networking and communication technology, and increased appreciation of highly flexible business models has caused virtually all insurance carriers to explore non-traditional options for running their businesses. Though the adoption of BPO for core insurance services is processing slowly, the market has grown rapidly. This paper focuses on the study of the need of BPO in Life Insurance Industry.

KEYWORDS: *BPO, Customer Satisfaction, Life Insurance Industry, Market Advantages.*

INTRODUCTION:

Outsourcing offers a convincing business model that insurance companies can leverage in the constant drive to attain customer satisfaction, operational effectiveness, and market advantage that will ultimately drive the bottom line. In a highly competitive market, where differences in policy premiums are insignificant, the focus must be on customer retention. Business process outsourcing is growing within the insurance industry, driven by increasing comfort with vendors and the need to reduce costs. In fact insurance industry itself has born out of the need to outsource ones risks.

The insurance sector is witnessing a concerted move towards business process outsourcing as a strategic option. This industry is ideally satued for outsourcing, given large transaction volume, structured decision-making and reliance on rule-set processes. Outsourcing in this domain has shifted along the complexity and maturity spectrums from transaction processing to true business transformation. Corporate house are progressively acknowledging the potential benefits from BPO in this segment and identifying road maps for peocess re-engineering that will contribute to greater profitability. Outsourcing strategies are being driven by the twin objectives of cost rationalization and qulality enhancement **(Das, 2013).**

TRANFORMATION OF INSURANCE

While the early 90s brought forth liberalization on all major economic fronts, the insurance was left untouched. But before long, the passage of IRDA bill in 1999 paved the way for the liberalization of Indian insurance sector. During the last three decades global insurance penetration as a percentage of the gross domestic product has more than doubled from around 3.5 per cent in 1970. The insurance sector thus grown more strongly then the overall economy. The insurance premium in India accounted for a mere 2 per cent of GDP as against the world average of 7.8 per cent and G-7 average of 9.2 per cent during 90s. The insurance premium as a percentage of savings in India is 5.95 per cent as compared to 52.5 per cent in UK. The insurance has lot of potentiality, which has to be tapped in general insurance. Regular penetration is about 0.60 per cent of India's GDP which is quit low and also the developed countries. In the developed countries it ranges between 2-8 per cent but insurance schemes have to be improved substantiality and this improvement is to develop the various insurance segments in India.

The entry of banks into insurance industry and to some extent the entry of insurer into banking has changed the face of insurance industry. This has come about due to bancassurance and assurbanking. The banking industry acts as a distributor for the insurance products, in which case the original insurer undertakes the risk. Further, industry experts favour the entry of new players. Perhaps, with this in mind, the government of India has proposed to increase the FDI limit in the insurance sector to 49 per cent. In budget 2004-05, the government laid emphasis on infrastructure and agriculture with the need for huge investments in these sectors, the insurance sector was expected to play a pivotal role by investing in projects with long gestation period.

CHALLENGES OF INDIAN INSURANCE SECTOR

The transition of the insurance industry from a public monopoly to a competitive environment now pre sents very intersting challenges, both to the new players and to the customer. The insurance penetration as well as the size of the average cover is well below international averages, proving great marketing opportunity for the insurance companies. While LIC has done commendable work, there is still a great deal loft scope for bringing in innovative products and distribution channels to tap this market. There is still a great deal of scope for bringing in innovative products and distribution channels to tap this market. There is still a great deal of scope for bringing in innovative products and distribution channels to tap this market. There is one truth in marketing and that is "Different Consumers Approach Buying Differently." Insurance is bought because of convenience, product placement, and safety of funds, advice and not the price.

Currently product-market relationship is dominated by personalized selling rendered by tied agents. Developing sensible approaches not only for the co-existence but flowing of multiple channels for sagacious and pragmatic propositions in product formulation, market segmentation by single distribution network will be an awesome challenge for the insurance companies. Also companies will have to transform customer relationship management to value based client relationship. Insurance business is based on averages and spreading of risks. So, a flexible pricing structure for sustaining customer confidence and interest will be a challenging task before Indian insurers. The benchmark of success of organization will be determined not only by the rate of return but also by the quality of corporate governance. So, Insurance company should focus on pricing, distribution, risk management and investment decision-making:

- Insurance companies in India will have to develop appropriate channels to tap this huge market as the core of insurance business hinges on an efficient distribution.
- Direct marketing is one of the most successful channels of distribution in the developed economies. It is a great way to reach a large population. So, the product should be sold through telemarketing or direct mail.
- In the insurance business cost control and ability to service large number of customers are crucial issues. So modern technology is to be adopted to handle both the services effectively.
- Today customers are well equipped with information, so insurance company should reposition different products by changing customer attitudes.
- The actuary should be required to attend minimum number of seminars called continuous professional development courses financial control of the organization.
- Distribution of existing insurance products is the main cause of worry for insurance companies in India.

IMPORTANCE OF OUTSOURCING IN INSURANCE INDUSTRY

Insurance companies have traditionally been among the slowest adopters of outsourcing/off shoring. However shrinking margins, higher claims disbursement and increasing competition in recent years, especially post 9/11, have forced insurance companies to look at outsourcingoutsourcing/off shoring to inprove efficiency and channelise resources towards the core functions of product development and innovation. The size of the insurance industry, with over 1500 P&C insurance companies and 1300 health insurance companies in the US alone makes insurance outsourcing an attractive market. The success of the early adopters will determine future growth rates. Several niche providers with relevant domain expertise are emerging and encouraging insurance companies to outsource more value-added services.

Some of the key drivers of insurance off shoring include:

- Cost saving
- Focus on core processes
- Speed to market
- Technology risk
- Better quality through specialized services
- Deregulation of insurance markets
- Availability of credible service providers
- Minimizing risk through multiple delivery locations.

BPO IN THE INSURANCE INDUSTRY

Ideal processes for BPO are ones that can be standardized or automated. The financial services industry is particularly suitable for BPO due to its repetitive and transaction oriented nature. Even in 2016, insurance companies are still lagging behind most industries in efficiently adopting the BPO model. Processes being considered ripe for outsourcing are tightly controlled by corporate compliance or statutory and regulatory factors in the back office of many insurance companies. Many times the size of insurance BPO deal is indicative of the challenges to put the outsourcing relationship in place. A large deal may involve the transfer of a number of back office operations, multiple processing locations, and various administrative functions. It may also involve a variety of differentiating services from outsourcing provider overtime and deal size alone may no always be a sufficient indicator of the implementation challenges.

For examples, health and medical insurance companies are seeing high transaction volume with low skill requirements as prime targets for outsourcing. An example of this could include provider sign up verification of benefits, or certification acceptance roughly requires 23 key activities that a follow a tightly controlled decision tree. BPO provides who are well established may see this as an opportunistic approach to the industry. However, company's processes and strengths may not always align with the requirements for statutory compliance. Therefore, it is imperative that companies undergoing a BPO understand what is being outsourced, the different vendors involved, andhow they will interface with internal human capital. The use of multiple vendors requires a due diligence process for each one.

COMPLEXITIES OF OUTSOURCING

Insurance outsourcing contracts present unique challenges not found in other commercial transactions. For example, outsourcing transactions must adequately address:

Change Control Process: Outsourcing contracts are typically for long terms, i.e., 5-10 years, during which the related technology will change significantly. The outsourcing contract needs to recognize such changes and include “change control” provisions to address such changes.

Regulated Activities: When the vendor’s services relate to areas which are regulated, such as settling claims, sending non-renewal notices, responding to consumer complaints, bureau reporting deadlines and notices of of adverse underwriting decisions, the outsourcing contract needs to address the vendor's responsibility to perform such tasks as required by applicable regulations.

Limited Remedies: Practically all vendors' first drafts include very restrictive limitations on their liability if they breech their obligations. These limitations include caps on damages, excursions of consequential damages, limited indemnification provisions protecting the vendor. These limits expose the customer to significant losses caused by failures of the vendor, and the customer having limited or no recourse against the vendor, creating a moral hazard. Understanding these limited remedies and their practical impact can be difficult. Negotiating remedies which provide practical and meaningful protections for the outsourcing customer is often one of themost controversial and difficult elements of the outsourcing contract.

Intellectual Property Rights: There are numerous IPR issues arising from typical outsourcing contracts. The intellectual property used in such transactions includes the materials the vendor uses to perform the services, such as its pre-existing know-howand the know-how (some of which the customer does not want shared with its competitors) and will assist the vendor in customizing the vendor's business. Who owns, and more inportantly, who has the continuingright to use such know-how can be controversial issues, especially after the relationship ends.

Information Technology: Outsourcing vendors claim and ability to perform the services more efficiently and cheaper than the customer can, because thevendor has better technology and has a higher leverage rate (several customers share in the cost of maintaining the latest technology and therefore enjoy economics of scale that each customer alone would not attain). There may be adverse effects of this and they need to be understood and addressed.

E-Business Issues: Outsourcing transactions involving electronic signatures and other used of the Internet for receiving and sending documents require a thorough understanding of how the insurance laws apply to these methods. Further, there may be required disclosures and other record retention obligations needed if documents will be received or delivered exclusively through electronic means.

Soft Landings: Vendors typically do not address, or do so casually, what happens when the relationship ends and how the customer reconstitutes its operations, transitions to another outsourcing vendor or simply winds down the operation. Failing to adequately address this is in the contract can result in the customer's remedy of termination for breach being an inadequate remedy.

Back office Complexity: Additional variables that impact the complexity of an outsourcing effort are those factors that influence, directly of indirectly, the organization's readiness to plan and conduct a particular outsourcing project. While BPO may seem straightforward, problems exist when organizations are not properly evaluated before transition. A point of recommendation is that primary companies should perform the due diligence on their own organizations and not allow the outsourcer to do the primary analysis. This will provide a position of leverage during contract negotiations.

BPO Project Complexity: Besides the statutory and regulatory compliance mentioned above a wide variety of factors may contribute "to raising the complexity of an outsourcing project." A critical step is to stress test a process that will be used from inception to implementation (measuring seasonal volumes, staff utilization, aggregate demand) this will allow the process owner to mitigate and understand complexity as soon as inherently possible.

INSURANCE BPO'S AND INDIA

The insurance sectors are in the process of outsourcing business opportunities. Insurance companies with large volumes and repetitive transactions around the world are working towards lowering the cost and upgrading the service quality to their customers and business partners. Working towards an effective cost control management, the insurance companies are on the look out for outsourcing the service agencies for the purpose. All the related activities such as new business prospects, policy administration, claims management and customer service are carried out by the BPOs.

The insurance sector is no exception to BPOs. According to a market intelligence report by Nasscom on the scope of BPO, after the successful experience of insurance majors such as GE Capital, Royal and Sun Alliance, Phoenix ad Conseco Exl Services, most other leading insurance companies are evaluating off-shoring opportunities in India. Norwich Union, the UK insurance company already has BPOs set up in New Delhi and Bangalore or processing general insurance claims. Aviva operates in India with 1200 employees. The time difference between the Greenwich and India provides scope for the India operations to work round the clock, 365 days. Aviva has 450 centers for servicing the British customers. 2000 employees are engages in back office functions and for handling British insurance claims. Claims BPO, and offshore division of the US based company Greensnow Inc. is functioning with 400 people in Nasik focusing on medical and dental insurance claims of the US customers. Tela Sourcing LLC has set up a back office in Pune for its health insurance products with a view to reduce costs. The new companies, a joint venture of Adapt is Inc. and India health care service aims at cost effective and value added claim-processing services to the US customers. The highly skilled, well-educated, low cost labour along with the advanced technology and infrastructure provide a real-time link between the HQ at Baltimore. US and Pune in India.

INSURANCE OUTSOURCING SOLUTION

Because of the task-oriented environment in many of the insurance processes, previously mentioned, outsourcing projects should incorporate project tasks to develop this information. Depending on the status, maturity, and sometimes, the simple existence of these factors, the effort can be positively or negatively influenced. A list of essential activities is listed below (Joe, 2005).

Process Map: The organization should map and document their current processes and service levels. This usually takes the most time but is essential and a necessary requirement to ensure compliance and cost realization as part of the business requirement definition function.

Organizational Readiness: The ability of the organization to adapt the proposed BPO and process changes will drive implementation time and user community acceptance.

Political Landscape: The characteristics of the organizational such as cultural and political norms will help determine if the project is successful. An area that is perceived as volatile may require additional dedication support time.

Process Metrics: The organization should measure the current and proposed operation. The development of reasonable service level performances will allow the business unit owner to set realistic expectations for service levels.

Outsourcing Experience: Previous utilization of outsourcing by companies will drive their embracement of the results. All organizations should have a financial baseline for analyzing outsourcing opportunities; and ensure thatit takes into account current and proposed demand.

Business Priority: The priority is placed on relationship initiative in relation to other efforts that will drive the required commitment and resources needed to be successful.

TABLE-1
Insurance Outsourcing Solutions

Agency	New Business	Customer Service	In-force Administration	Termination
• Licensing and contracting • Correspondence • Renewals • Termination • Return mail and Address change • Commissions • Special Compensation • Abandoned Properties • Debt Management	• Pre-screen & capture • Underwriting • Underwriting support • Delivery • Requirements & Follow-ups • Policy issuance • Fund Application • Refunds & NTO	• Queries • Changes • Complaints • Quotes	• Premium management • Error reporting • Balancing • Loans • Withdrawals • Dividends • Title address change • Certificate reissue • Quotes & reinstatements • Assignments Correspondence	• Claims Exam. and adjudication • Maturities • Surrenders • Exchange

Source: EXL Service, Outsourcing Banking and Financial Processes www.exlservice.com

BPO risks are associated with the design and management of the overall BPO project. The purpose of analyzing risks is to identify obstacles to the sucess of the project and assess the magnitude of each of these risks. Special focus should be placed on managing the most critical risks as they are eliminated or at least reduced during a time of change. Further is a business unit does not have a solid understanding of its current performance levels and the key metrics a solid understanding of its current performance levels agreements with outsourcing providers. Similarly, if the business processes are not well documented, it will be difficult to define their business requirements to potential outsourcers. Perceived insurance processes that will be impacted by BPO based on cost of labour and skill set required to perform the function are indicated in Table 5.1.

CONCLUSION

Managing the BPO change is the necessary glue needed to build a supportive climate and organizational system necessary to implement a successful transformation. Within BPO, change management incorporates the critical disciplines of communication and training, which affects behavior, skills development, cultural and organizational transformation. These attributes are inherent with all insurance outsourcing transactions can range from simple to more complex. The need for insurance executives to fully understand the financial and organization implications as it relates to their insured's, agents and customer service representatives, will be paramount to the success of the outsourcing endeavour. All BPO engagements require informed, involved and committed leadership. It's critical that leadership remains visible and the inception of the outsourcing idea to its implementation and subsequent management.

Financial institutions need to have a shift of paradigm to view capability outsourcing as an effective mode of operations in order to succeed. The traditional and vertical organizational structure must be replaced with dynamic new business performance. Outstanding products or ideas will have to higher probability of reaching the market rapidly when executive time is freed up to focus on value creation. In this type of new relationships, the clents and services providers agree on long-term business goals in a more flexible and adaptable framework. The new performance indicators are value creation, speed-to-value and optimization of value with success related rewards.

Business process outsourcing (BPO) represents a strategic and efficient option for companies looking to thrive in these tumultuous times. If implemented properly, BPO can be a fast and simple solution to rapidly reduce costs, help organizations survive the economic downturn and set the stage for future growth and expansion after the economic tidal wave subsides.

Rapid cost reduction is mandatory for companies trying to survive in the most challenging economic climate in over 60 years. But BPO delivers benefits which extend far beyond cost savings.

While insurance companies already outsource highly transactional processes such as claims and payments, new business processing and underwriting support, they can gain significant additional value by leveraging BPO for other processes. For example, outsourcing research and analytics for actuarial support can optimize pricing and more accurate premium calculations helping the company target additional consumers based on demographics, groups and risk profiles. A BPO provider with deep domain experience can support customer retention, cross sell and up sell initiatives and exploit new sales channels and entry into new geographies.

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