

DIGITALIZATION OF THE GENERAL INSURANCE INDUSTRY OF INDIA: A CASE STUDY OF ACKO GENERAL INSURANCE

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ABSTRACT

Digitalization is defined as the integration of the analogue and digital worlds with new technologies has substantially transformed many industries. Industry commentators believe that the transformation of the insurance industry has come rather late and it is yet to draw on the full potential of digital technologies. Most market participants believe that digitalization will change the fundamentals of the value creation of this industry, with manifold new ways of customer interaction, new cost structure and business processes, and a new workforce. Recent developments in insur-tech have promoted an immense interest among practitioners worldwide. The paper discusses the impact of digitalization on the general insurance sector of India. We take a case study approach to study the effects of digitalization on the general insurance sector by reviewing the business of Acko General Insurance Limited, India's first digital insurer and currently the fastest growing insurance company in the country. We find that digitalization has promoted a hassle-free insurance user experience for consumers and has led to quick growth of the Insurer implementing it while reducing the operational expenses.

Keywords: Digitalization, Innovation, InsurTech, Acko General Insurance.

Introduction

The Indian insurance sector is one of the fastest growing industries in the country and a platform for economic growth and employment. India ranks 10th in life insurance and 14th in non-life insurance industry in the world. The insurance industry in India has 58 insurance companies, including 24 life insurers and 34 non-life insurers (25 general insurers, 7 standalone health, 2 specialized insurers). The industry has witnessed a magnificent growth rate over the last two decades driven by greater private sector participation and investment, improvement in distribution capabilities, along with significant improvements in operational efficiencies.

The total insurance penetration¹ in India was at 3.76% in 2019 (life insurance 2.82% and non-life 0.94%) and the total insurance density² in India was at \$78 in 2019-20 (life insurance density: \$58, non-life insurance: \$19). The insurance industry size in India is expected to grow at 12.5% CAGR over the next decade 2020-30 led by specialized products such as protection and annuities (INVEST INDIA, National Investment Promotion & Facilitation Agency, n.d.).

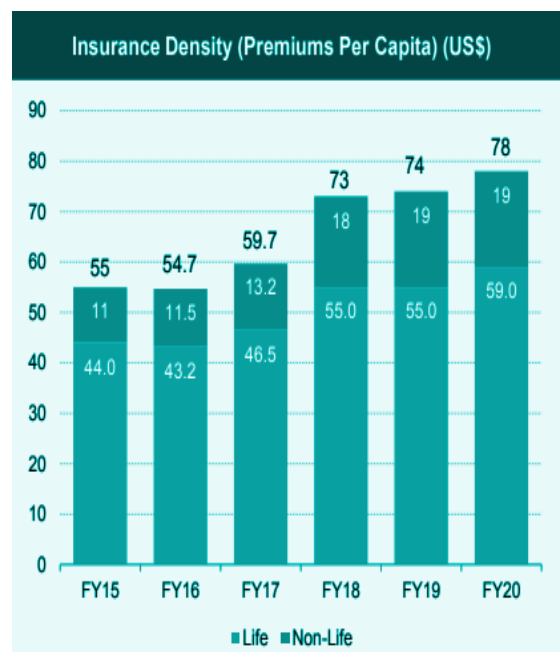
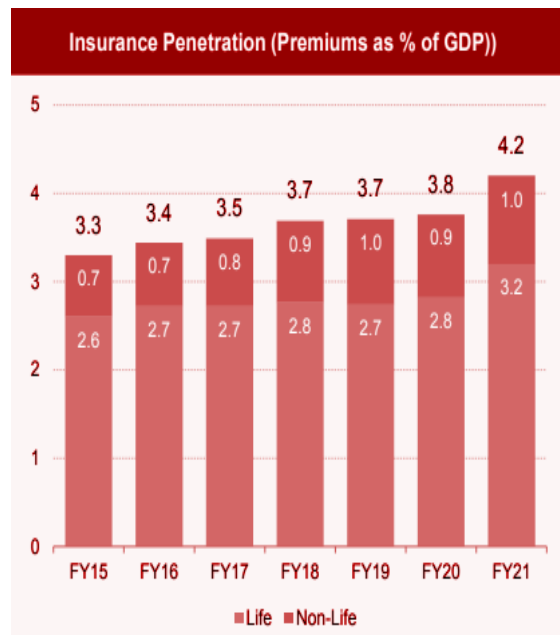
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Source: Insurance industry report by IBEF

¹Insurance penetration is measured as the percentage of insurance premium to GDP.

²Insurance density is calculated as the ratio of premium to population (measured in US\$ for convenience of international comparison).

With new enhancement strategies and technologies adopted by private players the importance of insurance has increased in the market. Digital technology is the new force that is driving massive and rapid changes in every industry of the market. Insurance industry is harnessing the digital technology – by ensuring purchase of online insurance, introduction of artificial intelligence and automation for faster claims settlement, new customized and innovative products for personalization, data collection from internet of things (IoT) and interaction on social media and promoting research for new innovations in the industry – to scale their business model making the business structure more convenient for better customer experience. New digital technologies are changing the way customers interact with insurers.

The purpose of this paper is to establish the linkages of resultant changes in the General Insurance Industry of India with the advent of digitalization using an in-depth case study of Acko general insurance limited.

Literature Review

According to global statistics, the value capital invested in InsurTech companies from 2012 to 2017 increased from \$326 million to \$2,134 million, and the number of deals in this period has increased from 86 to 247 (Statista, 2019) With the increased usage of the internet, the price dispersion of insurance products increases initially but as it continues to grow it reduces drastically making markets more competitive (Jeffrey R. Brown, 2002). Technologies like chatbots and voice assistants have gained quick popularity in industry by leveraging AI to simulate productive conversation with its users while delivering powerful customer engagement (Revathi, 2020). An important reason for their introduction in the insurance sector is the increasing aged population that demands continued care.

Using blockchain, insurers have been able to reduce the administration costs that come with reviewing claims and checking payments made by third parties – all this information is shared, fraud-protected, and easy to verify due to blockchain. Smart contracts can automatically authorize a payment due to the event of predefined conditions (Simon Grima, 2020), providing a basis for insurers for settlement of claims in real-time (Kamble, 2019). A fully digitalized insurance company, Digit is using block chain-based systems at the backend to speed up claims processing using which it has brought down time taken to service a mobile phone damage claim from about 25 days to a few hours. This technology has incorporated many facilities like automatically initiating and processing trip delay claims within a few hours.

Insurers are now considering consumers as individuals rather than segments and have been able to understand consumer needs and offer customized advice, coverage, and tailored pricing by using technologies such as Big Data (Martin Eling, 2017), artificial intelligence/cognitive computing and collecting data from sources such as IoTs–connected cars, toothbrushes– as the data received from technological devices allows a more accurate prediction of the occurrence of the insurance event, and therefore the uncertainty of risk materialization is minimized significantly (Revathi, 2020), (Ostrowska, 2020), (Cappiello, 2018)), advanced analytics of customers' needs and preference can help insurers against fighting frauds while machine learning using which insurers' systems can quickly adapt to new data without the need for reprogramming– can help insurers to shape underwriting, price products and manage claims (MV, 2018).

Cloud computing facilitates the comprehensive storage of insurance contract information with accessibility for the consumer, e.g., enabling self-service functions to real-time change documents (Martin Eling, 2017) and helps in shortening implementation times of new or amended insurance products by providing the necessary infrastructure to enable efficient streams of information within an insurance organization (Duncan, 2019).

Exploration of seamless information (from the fusion of satellite big data analytics into banking and insurance) sharing between the credit supply side and the downstream risk management side of the agriculture markets in developing countries can reduce the volatility in markets, provide a more transparent basis for agronomy policy making, encourage greater private sector and foreign investment (Narayan Prasad Nagendra, 2022).

Digitalization didn't have a significant difference in the efficiency of all spheres of the insurance industry. One such example is Rashtriya Swasthya Bima Yojana– which aims to provide health insurance coverage to the unrecognized sector workers belonging to the BPL category–which has led to commodification of health that is of little benefit for individuals and did not have any proven positive outcomes on accessibility of health care in Jharkhand (MARINE AL DAHDAH, 2020)).

Research Methodology

There has been a change in the Indian economy with the advent of digitalization– new business practices, policies, reforms have been introduced. Digitalization has given rise to e-commerce and has completely revolutionized Indian businesses. We wish to find out how digitalization has impacted the Indian general insurance industry.

We have used a case study approach of India's first fully digitalized General Insurance Company in India – Acko General Insurance Limited. The study includes considering a detailed analysis of the rise and growth of the company by reviewing its product line, business strategy and financial statements. The data has been collected using the below secondary sources:

- (Annual reports of the company for FY 2017- 2021, 2022)
- (IRDAI Website, 2022)
- Financial Databases and News channels

Case Study: ACKO General Insurance Limited

ACKO General Insurance Limited (Acko) is India's first fully digitalized insurance company of India with its entire operations offered through the digital platform. Founded in 2016 by Varun Dua and Ruchi Deepak, ACKO aims to provide conventional general insurance digitally. The company received its license from the Insurance Regulatory and Development Authority of India (IRDA) in September 2017 for initiation of operations. The general insurance company offers insurances like motor insurance, health insurance, travel insurance, home insurance, fire insurance and many more



Investments and Growth

Acko has raised up to \$458 million in its 6 funding rounds including seed round, Series B, Series C followed by two Series D funding. The figure 4.1 shows various funding rounds conducted by Acko general insurance company throughout its growth journey.

6 Funding Rounds for Acko General Insurance Ltd.

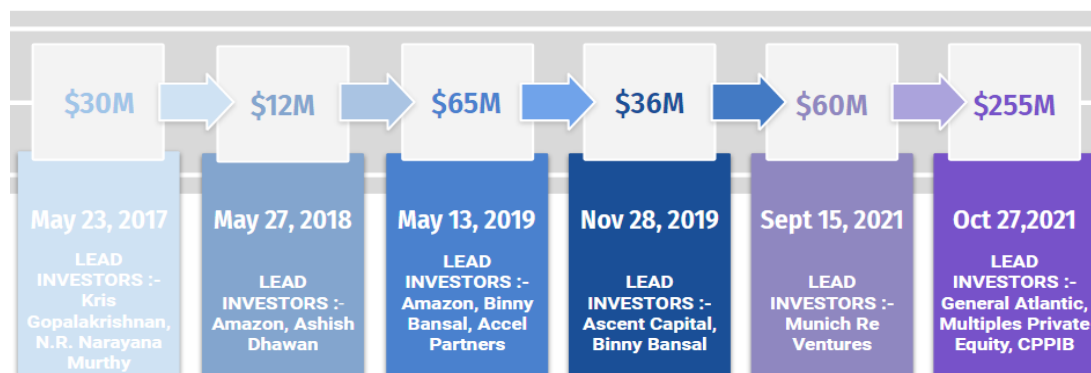


Figure 4.1: Authors Own Elaboration

According to the IRDAI's statistical data, dated 31.12.2019, it showed that Acko have grown substantially and been able to capture a decent market share of the disintegrated general insurance market. The company is growing at 215.14% over three years since its incorporation, attained 0.21% of market share and ranked at 28th position among 32 general insurance players (excluding specialized insurers) in the year ended March 31, 2019. These substantial investments and growth convincingly show the immense potential of the company to grow and capture greater market share.

List of Current Products

- **Motor Insurance Products**
 - Private car package policy, liability only policy for private car, standalone OD product for bike and car
- **Liability Line of Business**
 - Service contract liability product (SCLIP) and commercial general liability products
- **Fire insurance**
- **Equipment Insurance**
 - Damage protection plans to mobiles and appliances
- **Healthcare Products**
 - Group Medclaim cover, domestic & international travel covers, group and personal accident covers, loan shield covers, equipment insurance and fire covers.

Business Strategy: Work and Partnerships

ACKO has sold more than 60 crore insurance policies till date and customers have received high appreciation for their products & service with a 4.8-star rating on Google and 4.2-star rating on Facebook (Acko, n.d.).

Acko has partnered with leading Indian companies like Amazon to offer mobile phone insurance, Ola for in-trip insurance consisting of insured things like missed flights, lost baggage or laptops, accidental medical expenses, ambulance transportation by paying an amount of barely Rs 1 to Rs 15 (varies with the distance traveled), MakeMyTrip, Zomato, OYO, RedBus, etc to offer insure passenger cover, and much more. Recently, Acko general insurance company partnered with Urban Company for introducing the health insurance policy for its service providers in India.

The fintech aggregator- FinServ Markets, a subsidiary of Bajaj FinServ partnered with Acko for offering two-wheeler and four-wheeler policies which can be purchased through the Finserv market platform for. The general insurer partnered with Chennaiyan FC, a football team in ISL as an official insurance partner for the sake of marketing and awareness.

Acko Drive, an online platform has been launched by the company for providing best deals for potential car buyers making complete purchase effortless, unloading hassles of paperwork, negotiations and research for best car deals, best insurance price and loan management. Currently, it has its presence over four cities Bangalore, Hyderabad, Mumbai, Pune, and the NCR region with the business growing at 50% YoY as of March 15, 2022.

The company collaborated with OTT platform Disney + Hotstar for escalating its brand message across a diverse audience database of about 47 million customers during the 2020 Indian Premier League (IPL) tournament increasing brand awareness by 24% through the platform.

The company leverages technology to expand the reach by offering unique products over the range of insurances like trip insurance, consumer durables insurance, and accommodation insurance by collaborating with various digital partners. The brand focuses on developing convenient and more personalized products for customers. It focuses on a data driven approach to cross sell the products and predicts the changing customer behavior. Acko eliminates the need of middlemen to approach the customer ensuring easy and effective customer acquisition and retention. Acko stands out from the crowd of insurers due to its innovative and technology based unique offerings.

Review of Financials Statements

Acko reported a revenue of Rs 209 crore for the financial year ended March 31, 2021. The company has shown a CAGR growth of 366% in revenue over FY 2017-21. The company is still at a growing stage and a lot of cash is being spent to build the platform, building a team, to scale operations, and on new technologies. Due to this the company has not been profitable yet but has reduced expenditure and trimmed losses from the last year.

The company has been able to scale up its operational capabilities at a rapid pace. Acko issued a total of 177 policies in December 2017 and in FY 2019-20, it issued a total of 950,750 policies.

During FY 2020-21, the company has delivered INR 422 crores worth Gross Written Premium, with auto business (63% of the volumes) growing at 23% over FY20. Health insurance business launched in Q4 of FY20 witnessed INR 68 Cr of GWP during the year. Expenses of Management (EOM) to net written premium reduced from 150% in FY2020 to 91% in FY2021, leading to the reduction of combined ratio (Claims ratio + EOM) from 210% to 173%. Company was able to maintain a healthy solvency ratio of 1.9.

(in ₹ Lakhs)

Particulars	FY March 31 2017	FY March 31 2018	FY March 31 2019	FY March 31 2020	FY March 31 2021
Total Revenue	9.53	568.06	6015.49	19,562.15	20,900.69
Total Expenditure	26.21	1748.09	19,452.64	38,340.53	34,155.94
Profit/Loss before Tax	-16.68	-1180.04	-13,437.15	-18,778.38	-13,255.25
Tax Expense/Benefit	0	0	0	0	0
Profit/Loss After Tax	-16.68	-1180.04	-13,437.15	-18,778.38	-13,255.25

Author's compilation from annual reports

Conclusion

Acko insurance has a very dynamic approach and has established itself as a general insurance company with a 100% digital model, a zero-paperwork purchase. Acko General Insurance limited has been able to grow at 366% since its inception, capturing a market share of 0.21% at the end of 2019. The company's focus on becoming a direct-to-consumer brand, i.e., no middlemen and agents to assist the consumer has resulted in efficient cost saving measures. As a result, it is able to provide products at a better deal when compared to full-fledged general insurance companies.

It also provides its customers with relatively new products like low priced domestic and international travel insurance directly on the travel aggregator's website as well as equipment insurance. This remains a key highlight for the new age insurance company in tapping a lot of direct customers by collaborating with companies like Amazon - to provide insurance for electronic device or mobile phone purchased on its platform and OLA - to provide its customer with in-trip insurance.

On top of this, Automation of Motor OD (own damage) claims i.e., auto damage detection and auto estimation of claims just by uploading the photos on the Acko mobile application has completely revolutionized the user experience promoting a hassle free and cashless claim process for policyholders.

With digitalization the insurance companies have seen up to 28% uptake in revenue and 29% reduction in cost whilst making the markets more competitive and improving the overall customer experience from purchase of policy to filing of claim. The key technologies in bringing this revolution include advanced analytics, machine learning, artificial intelligence, internet of things (telematics) and blockchain which have bolstered the process of underwriting and claims management.

Given the positive impacts of digitalization in the Indian General Insurance Industry, there still exist certain challenges. The data needs to be digitalized before it can be exploited. Till date the most practical applications of machine learning are based on supervised learning algorithms. Supervised learning relies on a training data set which requires classified input data. Insurance being very much expertise driven leads to the implementing supervised machine learning methodology being costly and time consuming. AI systems, advanced analytics and machine learning models need data and lots of data to act and give results, but data availability and accessibility remains a question as new laws for data protection and privacy are emerging across the globe.

Consumer's behavior change remains the huge risk worldwide due to data phishing. If the consumer or policyholder knows that its every data like- location, gender, preferences, health records, economic background etc. can be exploited by insurance companies to give out dynamic pricing for the policy, the consumer will start acting in certain way to prevent paying higher price for the same policy. This could generate false data which will force the AI systems to take wrong decisions in claims and underwriting.

With the digital revolution and birth of digital first companies like Acko, the Indian insurance is at a cusp of change. With 5G around the corner and the government's Digital India policies, more of such digital first and digital only insurance companies will be launched in the near future. The digitization of insurance sector has certainly led to better and innovative products for the customers, has led to reduction in premium of policies, and a much faster and seamless process from sale to settlement of policies. This has encouraged and forced other companies to adopt a digital approach leading to a better and more competitive insurance industry.

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