Potters five forces with respect to icici prudential economics essay

Threat of New Entrants. The average entrepreneur can't come along and start a large insurance company. The threat of new entrants lies within the insurance industry itself. Some companies have carved out niche areas in which they underwrite insurance. These insurance companies are fearful of being squeezed out by the big players. Another threat for many insurance companies is other financial services companies entering the market.

Power of Suppliers. The suppliers of capital might not pose a big threat, but the threat of suppliers luring away human capital does. If a talented insurance underwriter is working for a smaller insurance company (or one in a niche industry), there is the chance that person will be enticed away by larger companies looking to move into a particular market.

Power of Buyers. The individual doesn't pose much of a threat to the insurance industry. Large corporate clients have a lot more bargaining power with insurance companies. Large corporate clients like airlines and pharmaceutical companies pay millions of dollars a year in premiums. Insurance companies try extremely hard to get high-margin corporate clients.

Availability of Substitutes. This one is pretty straight forward, for there are plenty of substitutes in the insurance industry. Most large insurance companies offer similar suites of services. Whether it is auto, home, commercial, health or life insurance, chances are there are competitors that can offer similar services. In some areas of insurance, however, the availability of substitutes is few and far between. Companies focusing on niche areas usually have a competitive advantage, but this advantage depends entirely on the size of the niche and on whether there are any barriers preventing other firms from entering.

Competitive Rivalry. The insurance industry is becoming highly competitive. The difference between one insurance company and another is usually not that great. As a result, insurance has become more like a commodity – an area in which the insurance company with the low cost structure, greater efficiency and better customer service will beat out competitors. Insurance companies also use higher investment returns and a variety of insurance investment products to try to lure in customers. In the long run, we're likely to see more consolidation in the insurance industry. Larger companies prefer to take over or merge with other companies rather than spend the money to market and advertise to people.

Pestel analysis

Political and legal factors

Within Indian political ambitions and rise of communalism, fissiparous tendencies are on the rise and may well continue for quite some time. Based on this the insurance companies might introduce political risk coverage in their policies. In India the only area where customers consider to a take insurance cover is on customs duty change but also on certain conditions. The term " political risk" has a wider connotation than commonly understood or assumed. It covers events rising not just from politics, but risks in the course of international transactions. Based on this the insurance companies come up with new policies with respect to the problems arising out of foreign legal jurisdiction, political changes and also currency exchange difficulties being faced by many developing countries. Reforms in the Insurance sector were initiated with the passage of the IRDA Bill in Parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies. In India the entry mode for a company to start up a new life insurance company is to have a paid up capital of 100 crore rupees. Other rules got in by IRDA are Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50% GIC and its subsidiaries are not to hold more than 5% in any company (There current holdings to be brought down to this level over a period of time)

Economic Factors

The interest rates at bank and also the provident fund variation affect the life insurance industry as people are always attracted by a higher return. So compared to this the lower return policy is not attractive to the customers. Another factor which affects the life insurance industry is Unemployment, as unemployed people would not have any earnings, savings would be comparatively less which would mean less sales in-turn affecting the GDP of the country and also the industry. Other factors which contribute to the insurance industry are the natural factors like earthquakes, monsoons etc, as these events lead to a lot of deaths, the insurance companies have to pay claim against the policy. A typical Indian will want a better product with a low income so he prefers to pay in annuity or installments (EMI), so that they will not have extra savings to invest in the insurance policy.

One of the main reasons for the economic factor is the inflation rate in today's market. High inflation rate will tend to reduce the insurances' business as the money paid to the policy holder during the time of maturity will be less and it would be less attractive for the investor.

Social-cultural factors

Population is one of the major factors affecting the industry as the growth in population will indirectly help the companies to capture more market with more people. Life styles is another factor which affect the industry, the current life styles of the people in India are increasingly becoming like nuclear families, as both the parents would be working there would be a possibility of an accident, which would mean more sales for the company In terms of life insurance. Similarly people are interested in having a car and more cars in the road would mean more sales for life insurance. The third factor is the level of education, as India is still a developing country more than 50% of the population is illiterate and the other 50% are not sure about the concept of life insurance, creating the awareness for the product is a big challenge and one of the more contributing factors that affect the life insurance industry.

Technological Factors

Internet is becoming a fast house hold name in India where every house in the urban area has a connection. The life insurance industry has taken advantage of this with having many policies which can be flexible to the customer. The customer can check the flexibility sitting at home and select the best policy, pay the monthly installments and everything would be done within minutes. One more factor is the debit and credit card facilities where the customer can pay the installments easily. The life insurance industry is taking a huge advantage of the technology advancement in the world and making it their competitive advantage.

Environmental factors

Insurance companies in India are more affected by the environmental factors which can affect the industry. The Tsunami in 2008 which had such an impact in the south – western India,

Drivers of growth in the insurance industry.

Government support

The existing rule according to the IRDA in India is that a foreign partner can hold a maximum of 26% of equity in an insurance company. Countering this a proposal has been submitted to the government to increase the limit to 49% which would mean more money to be pumped in the market. In 1999, a total of Rs. 8. 7 billion has been supplied by the foreign partners and 21 private companies have been granted licenses.

Competition

The intense rivalry among the players in the life insurance market is going to affect the industry in a positive way. LIC which has the most market share is showing signs of losing their grip in the competition and other companies like ICICI prudential, Metlife India are gaining.

Legal aspects

The insurance sectors growth is more than 3 times the growth of its economy in India. So many businesses or the domestic firms will aim to invest in insurance sector. Moreover, the growth of insurance in India is 13 times more than the growth of insurance industry in the developed countries. So foreign companies will be fostering an immense desire to invest in the Indian insurance market.

Industry life cycle model

Source: (Johnson, et al. 2005)

The theory for the Industry Life cycle is given in the Appendix. Analysing the life insurance industry in India the key observations are, the Industry is in the shake-out stage relating to the porters 5 forces analysis we can evaluate that the entry into the market is difficult and there is immense competitive rivalry in the industry and the companies are innovating with many flexible policies to suit the potential customer. The present market players like LIC, ICICI Prudential, Metlife India insurance are having a strong Managerial and Financial position, they are capable of holding the market which in the present market scenario is a key to holding customers so the weak companies are not able to cope up with this scenario and are either being taken over by the big companies or they are just run over.

Scenario 1

Joint-Venture

In the future we might see a lot of companies merging in order to compete with LIC which has about 68% of the market share. The next major company holding the market is ICICI Prudential with 8% which is also a joint venture between ICICI Bank and Prudential life Insurance.

The difference between the top two companies is 60%. Which can also be told as a monopoly by LIC. As the insurance industry is one of the most emerging in the world many companies want to compete for the market share. Given the scenario, the only weakness that LIC has is their customer relationship management, other companies have made that area their strongest.

Taking into consideration one of the drivers for change that is mentioned above, which says that the government might increase the limit of foreign companies' equity to 49%, there are many opportunities for the joint ventures to happen. Few companies have already established themselves in the market like AIG with Tata, ING with Vyasaya.

Scenario 2

Life Insurance becoming more tech-savvy.

Another scenario is that the life insurance companies make trading online for the customers. That is make everything available in the internet for the customers like paying of premium, choosing the right policies etc.

ICICI Prudential has tried its hand at the technology by giving more information about their policies and services they offer to the customers where the customers can check and enquire anything they want to know.

This is one of the stepping stones to the technology of having everything electronic where the customer won’t be harnessed to the paper work of having a life insurance.

Many other companies have taken upon this area and soon it will be a boon to the customers.

Scenario 3

Life insurance as growth of the economy

Since India’s life insurance industry liberalized in 1999, there have been companies coming to India and with it increasing the competition, the innovation, the flexibilities etc. Insurance industry’s contribution towards the GDP has increased significantly from 2. 3% in 2001 to 5. 2% in 2011. The Life insurance covers have increased about 12times in the past decade and Many analysts predict that by 2020 India will be one of the three top countries in the insurance market. The statistics say that the insurance industry will reach upto $350-$400 billion by 2020. (Study of insurance sector, 2011)

Changing scenario in the life insurance industry!

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