The road ahead for insurers post merger

The government's proposal to merge National Insurance, United India Insurance and Oriental India Insurance can have massive ramifications as the merged entity will end up controlling about one-third of the total non-life insurance market in India. Will the combined entity be just old wine in a new bottle or will it be the breakthrough that becomes a game changer?

Apart from the prospect of improved valuation and safeguarding investor interest, what probably motivated the government to announce this merger was a combination of the deteriorating financial condition of the three companies, concerns around raising capital from the market and the divestment agenda of the government.

Opportunities

The merger can trigger a whole bunch of initiatives, yielding positive returns for all the key stakeholders—industry, shareholders and customers.

To start with, one can expect an end to unhealthy competition among the companies and a more prudent underwriting discipline. This merger presents an opportunity for the companies to transform into a new-age entity in today's fast paced and dynamic insurance market by discarding some of the legacy operating protocols, which have become bureaucratic over a period of time, and reinventing organisational structures.

A recent Willis Towers Watson research indicates that one in three companies in India are considering a different organisational structure in response to rapidly changing work- and workforce-related dynamics in a world that demands more nimble and adaptable organisational structures.

A merger of this size and stature will provide cost synergies primarily around infrastructure, operational efficiencies fuelled by economies of scale and optimisation around marketing spend. The "insuretech" space hands a golden opportunity to the merged entity to strongly embrace technology and leverage it as a differentiator while competing with private sector insurers. Technology not only has the potential to disrupt national insurance markets, it can also alter the global balance of power between insurers in developed markets and those in emerging economies. Less hindered by legacy systems, companies in emerging markets are often able to create new innovative solutions faster.

While all this will create a positive bias and generate value for the shareholders, the customer will be the ultimate beneficiary. Apart from bettering existing customer experience, the new entity can enhance customer reachability and expand across under-penetrated geographies. With a huge talent pool and wealth of experience in a unique and intricate Indian market, innovative "productisation" can be expected from the stables of the combined entity. Till now, the focus had been restricted to traditional products itself. With the emergence of newer risks in the Indian ecosystem, the new entity can leverage its strength to provide solid risk mitigation and risk transfer capabilities. Some of the speciality risks such as cyber, title, warranties and others still call for more product focus around understanding the risk, communicating it and eventually underwriting the risk.

In addition to accomplishing its goal of deeper insurance penetration in areas like health, personal accident and crop, the government may also be looking at this new vehicle to reduce forex outgo as a result of better retention capacity of the combined entity.

Challenges

But let’s remain mindful of some of the major challenges the merger presents. Harmonising the different IT platforms into a common one will be a mammoth task. But given that India is home to some of the best tech companies in the world, it can pose only a temporary challenge.

In terms of organisational culture, the integration of people and processes would certainly be onerous. There are more than 50,000 employees across the three entities and redundancies can be expected. The government would need to tread cautiously and may have to pursue reskilling/upskilling aggressively.

Various issues related to the retirement liabilities (integration of gratuity, super annulation and provident fund) of employees will also pose a huge challenge, requiring attention of qualified and experienced actuaries.

Managing treasury investments will also be tricky due to the regulatory and governance framework that defines the extent of investments in any investee company. Also, an entity of such mass and volume can sow the seeds of monopolistic market behaviour. The regulator will have to allay such fear of threat towards customer sovereignty.

Summing it up, the opportunity and the challenge is to be able to build a merged entity far different from the existing ones. While it’s too early to talk of any definitive impact, nothing significantly negative is expected for the industry or the customers, as long as the government is able to manage the challenges that will inevitably arise. It is indeed time for all parties involved to pull up their sleeves, rise to the occasion and deliver.

The article by Rohit Jain was first published by **Mint dated 11 April, 2018.*

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