

## Business and Management IA:

Should Kotak Mahindra Life Insurance diversify into the immediate annuity<sup>1</sup> segment in the Indian market?

### Word count

Research proposal: 492 words

Executive summary: 200 words

Report: 1992 words

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<sup>1</sup> *An annuity is a contract sold by an insurance company designed to provide payments to the individual at specified time intervals usually after retirement*



Life Insurance

**To whomever it may concern**

This is to certify that \_\_\_\_\_ has discussed with me the various business aspects of the insurance and annuity markets, as mentioned in the report. She has researched the future prospects of moving into the annuity markets for Kotak Mahindra Life Insurance, and also looked into the financial perspective of the venture.

Regards,

Executive Director, Kotak Mahindra Life Insurance

**Kotak Mahindra Old Mutual Life Insurance Limited**

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Life Insurance

**To whomever it may concern**

I confirm that \_\_\_\_\_ has gained information about the structure of the annuity markets and KMLI's current market position through an interview with me. The discussion included in detail the influence of a possible diversification into this market on the company's stakeholders.

Regards,

Appointed Actuary, Kotak Mahindra Life Insurance

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Sion (East) [www.kotaklifeinsurance.com](http://www.kotaklifeinsurance.com)

## Acknowledgements

- \_\_\_\_\_ *Executive Director, Kotak Mahindra Life Insurance (KMLI)* - For his guidance on the topic and taking time for conducting an interview on the topic.
- \_\_\_\_\_ *Appointed Actuary, Old Mutual plc.* - For his assistance in concerning the financial figures, and time for the interview.
- \_\_\_\_\_ For her continuous guidance and support in helping create this report

## CONTENTS PAGE:

Letters of authentication.....	2
Acknowledgements.....	4
Executive Summary.....	7
Research Proposal.....	8
<b>1. Introduction.....</b>	<b>11</b>
<b>2. Methodology.....</b>	<b>12</b>
2.1. Primary Research	
2.2. Secondary Research	
2.3. Tools Used	
<b>3. Main results and findings</b>	
3.1. Current Market Position of KMLI.....	13
3.2. Financial Position of KMLI.....	14
3.3. Annuity Market Structure.....	16
3.4. Industry structure and attractiveness – Michael Porter’s 5 Forces.....	18
3.5. Market demand: Primary Survey.....	19
<b>4. Analysis and Evaluation</b>	
4.1. Financial Analysis.....	20
4.2. Investment Appraisal.....	20
4.2.1. Projected cash flows for annuity product	
4.2.2. Payback Period	
4.2.3. Average Rate of Return	
4.2.4. NPV	
4.3. Non-Financial Analysis.....	23
<b>5. Conclusions and Recommendations.....</b>	<b>25</b>
5.1. Recommendations	
5.2. Possible biases in research/sources	
5.3. Unresolved questions	
<b>Bibliography.....</b>	<b>27</b>
<b><u>Appendices:</u></b>	
<i>Appendix 1: Interviews with management</i>	
1.1. Interview with .....	28
1.2. Interview with .....	31
<i>Appendix 2: SWOT Analysis.....</i>	<i>34</i>
<i>Appendix 3: PEST Analysis .....</i>	<i>37</i>

Business and Management HL  
Internal Assessment  
May 2009

*Appendix 4: Market Share details*.....39  
*Appendix 5: Financial Analysis* .....40  
*Appendix 6: Primary Research: Survey for potential customers* .....41

## Executive Summary

Kotak Mahindra Life Insurance has embarked upon an aggressive growth strategy of attaining new business premium growth of between 75-100% per annum. With the growth in their current businesses slowing down, management has expressed a need for developing a plan for future growth. This research investigates whether 'KMLI should diversify into the Immediate Annuity segment in the Indian market'.

Thorough analysis of primary data collected through interviews with management (Appendices 1.1 and 1.2), and primary survey with a potential target group (Appendix 6), along with secondary data collated from the company's annual reports, magazines and the internet was done. Data was analyzed and evaluated using financial tools (*Investment Appraisal*) and non-financial techniques (*SWOT, PEST-G, Porter's 5 force model*).

Favourable financial figures including an ARR<sup>2</sup> of 102%, positive NPV<sup>3</sup> over 6 years and payback period of less than 3 years emerged. Other social, legal and economic factors contributed towards the conclusion that diversification of KMLI into immediate annuities market was an excellent growth strategy. This conclusion is backed by the company's core competencies conducive to this diversification.

However, further research regarding potential risks and gains in the annuities market must be undertaken, with specific emphasis on financial returns of the project.

*Word count: 200 words*

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<sup>2</sup> Average Rate of Return

<sup>3</sup> Net Present Value

## Research Proposal

### **Research Question:**

Should Kotak Mahindra Old Mutual Life Insurance diversify into the Immediate Annuity segment in the Indian market?

### **Rationale:**

Kotak Mahindra Life Insurance is currently focused on its Individual Protection cum Savings and Group Superannuation markets. Since February 2008, the market has faced a slowdown due to higher base effect<sup>4</sup> and volatile capital markets. Hence, the organization is considering other growth options in order to meet their aim of 100%<sup>5</sup> growth next year. The annuities<sup>6</sup> sector is an attractive proposition, with growth rate of 182.6% per annum<sup>7</sup>.

### **Theoretical framework:**

Financial and non-financial factors will be taken into consideration. Techniques such as Investment Appraisal will be used for analyzing financial factors. SWOT and PEST analysis will be used to assess the company's current position. Michael Porter's 5 Force framework will be used to assess the industry structure and evaluate future opportunities and challenges.

### **Areas of syllabus covered:**

- 1.2: Growth and Evolution
- 1.3: SWOT analysis
- 2.1- 2.5: External Factors
- 3.2: Market Research
- 6.2: Investment Appraisal

### **Methodology:**

#### **Primary Research:**

- Interviews with management ( : Executive Director, : Appointed Actuary) of KMLI, to determine current position of the company, future prospects, advantages and disadvantages of entering the annuities market.

<sup>4</sup> The gross premium reached 4.1% of GDP, with a 31% CAGR.

<sup>5</sup> The Hindu Business Line, "Kotak Mahindra targets growth of 100% in new biz premium"  
<http://www.thehindubusinessline.com/2008/01/29/stories/2008012951320600.htm>, accessed on 22<sup>nd</sup> March, 2008

<sup>6</sup> *Annuities are contracts sold by an insurance company designed to provide payments to the individual at specified time intervals usually after retirement*

<sup>7</sup> 2007-site. (LICouncil)  
<http://info.worldbank.org/etools/docs/library/157239/nbfi-thailand/pdf/mod06/asher06.pdf> accessed on 22nd March, 2008



## Business and Management HL

### Internal Assessment

May 2009

- Questionnaires for potential clients to narrow down upon target market and determine whether an untapped demand exists within the market.
- Interviews with management of competitors if possible, to assess the present situation in the industry, observe their growth rates and identify current risks.

#### Secondary Research:

- Review the Annual Report of KMLI to determine relevant financial figures required for this investigation.
- Study customer profiles from existing consumer base of the company, to identify potential customers for the new annuity product.
- Review recent articles from the internet, journals and periodicals on the annuity market, to help identify market trends.

#### Action Plan:

<u>Date</u>	<u>Task</u>	<u>Modification</u>
5 – 12 March 2008	Topic Selection	Topic changed from pension markets to annuity markets to enhance focus
25/03/08	Research Proposal submitted	
26/03/08	Feedback received	Methodology modified Objectives elaborated upon
12/4/08	Questionnaire for target market written	
9/6/08	Potential customers taken from organization database	
10/6/08	Interviews conducted with 30 potential customers	
14/6/08	Interviews with management fixed for 24 <sup>th</sup> June	Dates changed as interviewee was to travel
28/6/08	Interviews conducted	
29/7/08	Review Annual Report	
7/8/08	Complete financial analysis: Investment Appraisal and decision trees	Decision trees omitted due to inadequate information
10/8/08	Feedback from supervisor	
18/8/08 – 27/8/08	PEST/SWOT analysis	
15/9/08	First draft due	Postponed due to DAIMUN conference
18/9/08	First draft submitted for feedback	
7/10/08	Final submission	

**Possible difficulties and proposed solutions:**

<b>Problem</b>	<b>Solution</b>
Statistical bias in the sample used to carry out market research	Use of computer to randomly select 30 customers from database to reduce sampling discrepancies.
Limitation of validity and accuracy of financial data	Very recent data is used, and cross-checked with annual reports to enhance accuracy
Interview questions may be too close-ended, leading to loss of information	Questionnaires for management are largely open-ended.

*Word count: 489 words*

## 1. INTRODUCTION

**Kotak Mahindra<sup>8</sup> Old Mutual Life Insurance** is a joint venture between Kotak Mahindra Bank Ltd. and Old Mutual plc.<sup>9</sup> It is one of the fastest growing insurance companies in India, showing remarkable growth since its inception in 2001. It currently ranks 8<sup>th</sup> in the Indian insurance industry with 3.6% market share<sup>10</sup>.

Operations and staff strength: Has a network of 178 branches across the country and plans to open 30 more branches by December 2008. It has around 5000 employees and a total agency force<sup>11</sup> of 36,000 agents.

Products: KMLI offers a wide range of individual as well as group insurance products currently.

Sales and profits: It sold a total of over 3 lakh policies in last FY 2007-08 and recorded a net profit<sup>12</sup> growth of 78% in the same year.

In the current year 2008-09, KMLI aims to achieve growth of 100%. This requires market activity beyond the current products, because of increasing competition and a growth slowdown in the industry. As part of its growth strategy, it is evaluating the option of diversifying into the annuity market in India. Recent market trends show an untapped demand and hence a great opportunity for KMLI. Viability of this possible diversification strategy, its advantages and risks, are discussed in this report to evaluate whether:

***KMLI should diversify into the immediate annuity segment in the Indian market.***

*Word Count: 225 words*

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<sup>8</sup> **Kotak Mahindra** group is India's leading financial conglomerate, offering a wide range of services including personal financial services, commercial banking, corporate, investment banking, asset management and life insurance. The group has a net worth of Rs. 6000 crores, employs over 20,000 people in its various businesses and has a distribution network across 370 cities in India and 6 locations abroad

<sup>9</sup> **Old Mutual Plc** is company listed on London Stock Exchange with operations in UK, US, Continental Europe, Asia and South Africa.

<sup>10</sup> Appendix 4: Detailed market share figures

<sup>11</sup> Agency force is the sum total of all commissioned agents and distributors of insurance products for KMLI

<sup>12</sup> Net Profit = Profit (/loss) Before Tax + Value of New Business

## 2. Methodology

### 2.1 PRIMARY RESEARCH

Both primary and secondary research is performed in order to gain a holistic view of the research question. Primary research was conducted through interviews with KMLI's management<sup>13</sup>. Additional primary research to assess product demand is conducted with a stratified random sample of 30<sup>14</sup> in the age-group 40-65, through questionnaires<sup>15</sup>.

### 2.1 SECONDARY RESEARCH

Secondary research was carried out using data on the annuity and insurance markets, as well as from financial reports of the organization. Sources for secondary data are detailed in the bibliography.

### 2.3 TOOLS USED

Tools used for analysis of the data found, included Investment Appraisal<sup>16</sup>, SWOT Analysis<sup>17</sup>, PEST Analysis<sup>18</sup>, and Michael Porter's 5 Force Framework<sup>19</sup>.

*Word Count: 108 words*

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<sup>13</sup> Transcripts of interviews in Appendix 1.1 and 1.2

<sup>14</sup> Copy in Appendix 6: Market Research- Primary survey

<sup>15</sup> Copy in Appendix 6: Market Research- Primary survey

<sup>16</sup> Section 4.1: Analysis and evaluation

<sup>17</sup> Appendix 1- SWOT Analysis

<sup>18</sup> Appendix 2- PEST Analysis

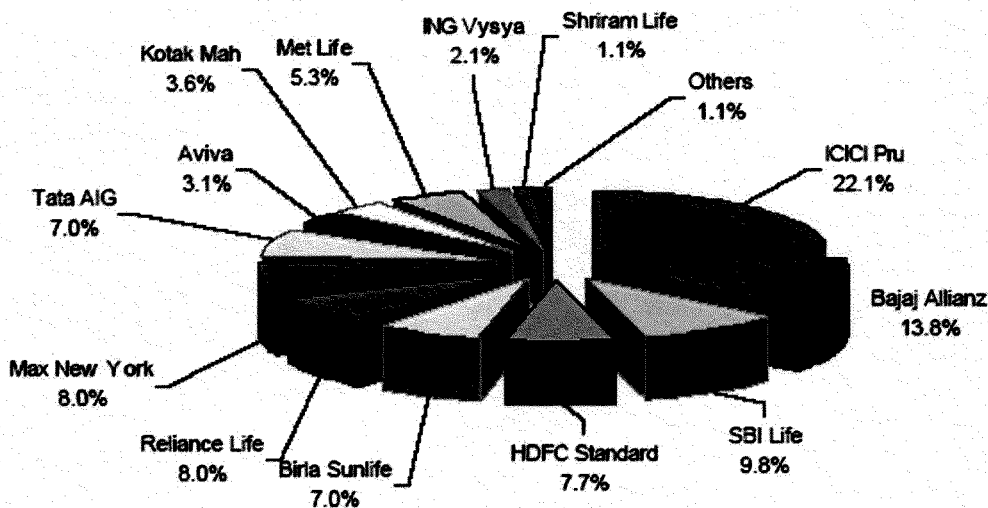
<sup>19</sup> Section 3.4 in Summary of findings

### 3. MAIN RESULTS AND FINDINGS:

#### 3.1: Current Market Position of KMLI:

KMLI ranks 8<sup>th</sup> <sup>20</sup> amongst its competitors and is experiencing favourable growth and profits since the past few years. With a rapidly growing market share of 3.6% (*refer fig.1*) it possesses a strong workforce and wide-spread distribution channels across India. It is present in an economy experiencing dynamic growth of 8.5-9% p.a.<sup>21</sup>, which, combined with deregulation of the pension markets, places KMLI in an extremely strong position as a potential entrant into the annuity market.

*Figure 1: Chart showing market share of private players in the insurance industry*



Source: [www.india.dalalstreet.biz](http://www.india.dalalstreet.biz)<sup>22</sup>

Being a subsidiary of Kotak Mahindra Bank, the company has a strong financial backing and widened distribution<sup>23</sup>. In contrast to a foreign company, KMLI has a competitive advantage through in-depth local knowledge of the insurance and pension markets. Its core competence is in managing investments, and has a loyal consumer base of 1 million customers (a ready target group). Aiming at a growth of between 75-100%, using the

<sup>20</sup> Appendix 1.1: Interview with

<sup>21</sup> The Financial Express "Growth in India to moderate in 2008"

<http://www.financialexpress.com/news/Indias-GDP-growth-to-moderate-in-2008/247250/>

<sup>22</sup> Accessed on 27<sup>th</sup> August, 2008

<sup>23</sup> Appendix 2: SWOT Analysis

Business and Management HL

Internal Assessment

May 2009

Ansoff Matrix<sup>24</sup>, KMLI is looking at a holistic strategy of product development and market penetration.

### **3.2: Financial Position of Kotak Life Insurance**

#### **FINANCIAL FIGURES FOR KOTAK MAHINDRA LIFE INSURANCE:<sup>25</sup>**

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>New business premium (NBP)</b>	1107	615	397	375	127	35	7
<b>Renewal Premium</b>	584	356	225	92	24	5	
<b>Total Premium</b>	1691	971	622	467	151	40	7
<b>PBT</b>	(71)	(58)	(43)	(46)	(49)	(28)	(27)
<b>VNB margin<sup>26, 27</sup></b>	260	149	88	42	17	7	2
<b>Net Profit</b>	189	91	45	(4)	(32)	(21)	(25)
<b>Capital</b>	532	382	322	252	232	180	150
<b>Branches</b>	151	74	46	43	40	29	21

*Source: Kotak Life Insurance Ltd. Annual Report 02/03/04/05/06/07/08*

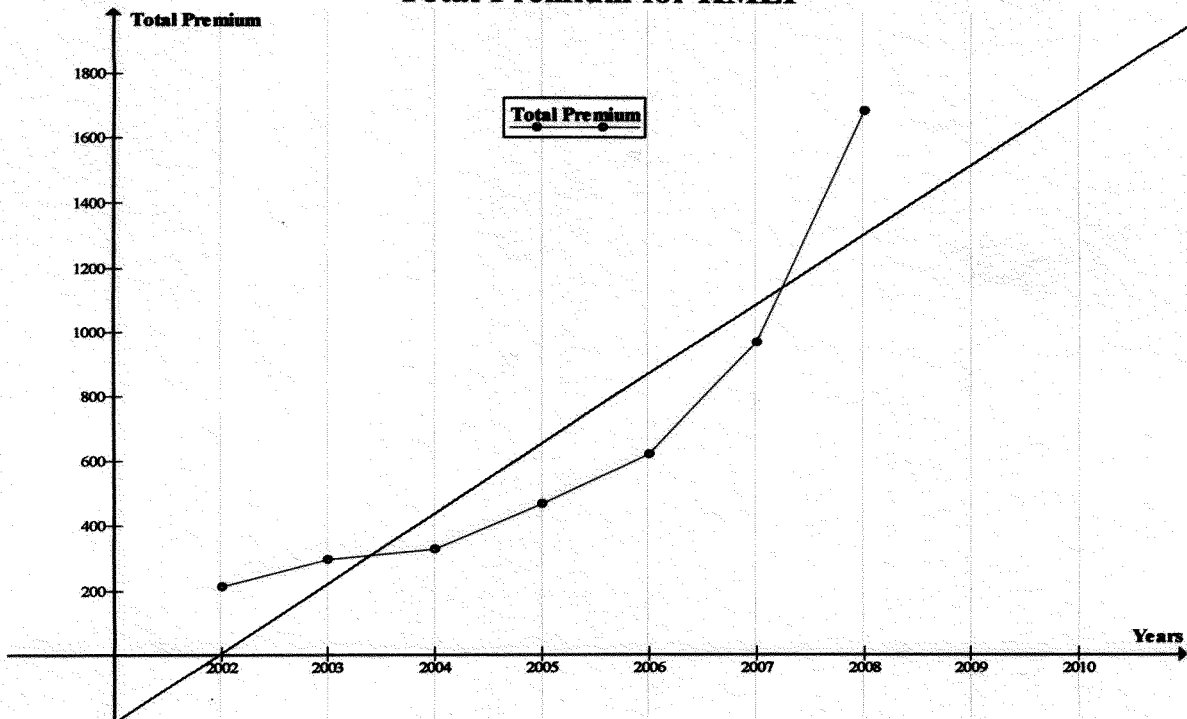
<sup>24</sup> *Ansoff Matrix, Marketing Objectives and Strategy, Page 164-289, Business Studies, Dave Hall*

<sup>25</sup> All figures in crores, 1 crore = 10 million

<sup>26</sup> VNB= present value of future profits embedded in the policies sold during the year.

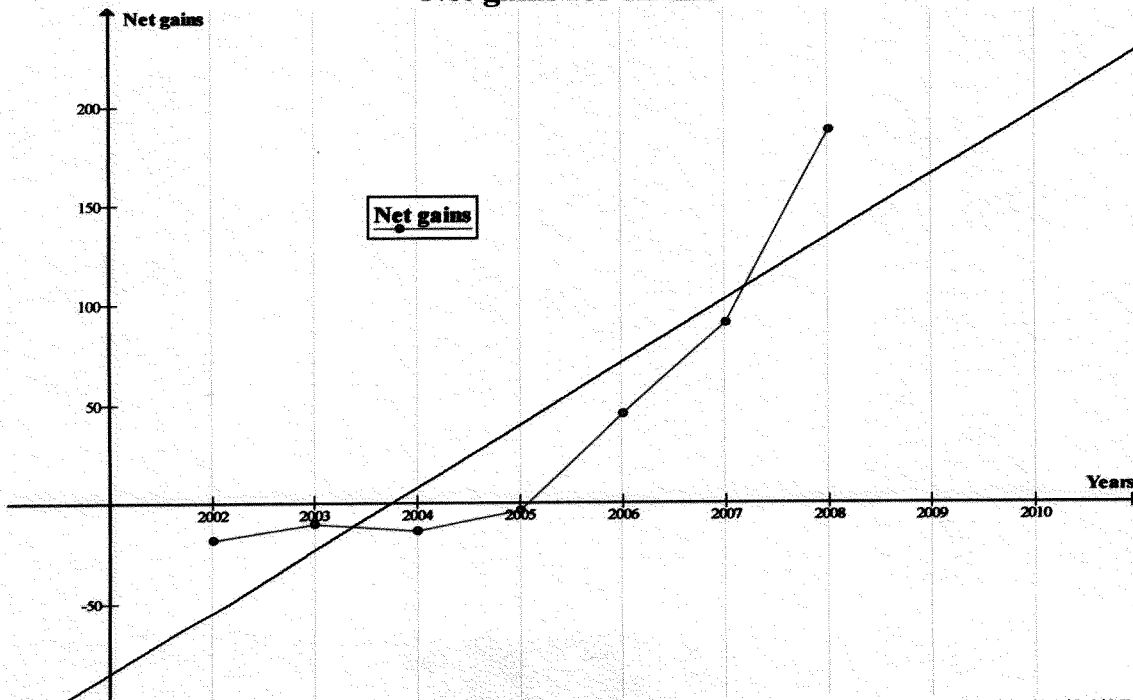
<sup>27</sup> As calculated by the Appointed Actuary: Appendix 1.2: Interview with Mr. Andrew Cartwright

### Total Premium for KMLI



Source: Kotak Life Insurance Ltd. Annual Report 02/03/04/05/06/07/08

### Net gains for KMLI



Source: Kotak Life Insurance Ltd. Annual Report 02/03/04/05/06/07/08

Financial figures of KMLI show evidence of 74.1% growth in total premium received in 2007-08. . The company has also grown by 120% in NBP first half of current year 2008-09. Their distribution network has expanded by 169 branches over a span of 5 years, and by extrapolating graphs, we see that this trend is predicted to continue in the future. However, being a dynamic market, combined with the effect of increasing competition, the predictions may vary. KMLI is going to face increasing competition in coming years, with the current market of 21 players being eyed by numerous global insurance firms.<sup>28</sup> Furthermore, government legislation to free up administrative requirements in Indian insurance market is still pending. Therefore, as a result of competition and policy bottlenecks, the company should look at alternative growth options.

### **3.3 Annuity market:**

#### **Market structure:**

- New and underdeveloped market in India.
- The available pension funds are around Rs. 22,562 crores, while the annuity market is only about Rs. 2000 crores.<sup>29</sup>
- Using Porter's 5 Force analysis, it is identifiable that the current<sup>30</sup> 12 players in the annuity market provide high levels of competition. However, the untapped potential and the phenomenal growth rate of over 150%<sup>31</sup> in the last financial year indicate the opportunity it provides.
- Peculiar feature - in spite of increasing demand for the products, most new entrants have failed to meet targets and have a combined market share of only 10%<sup>32</sup>.

#### **Socio-cultural influences:**

93% of the people in India don't have a pension cover or any other kind of social security and the number of elderly persons (60+) is projected to increase to 113 million by 2016<sup>33</sup>. Life expectancy on the whole has gone up from 57.4 years (1991) to 63.9 years (2007)<sup>34</sup>. A cultural change in family systems, primarily the break down of joint families is leading to fewer earning members and higher uncertainty of financial support from the young.

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<sup>28</sup> The Hindu Business Line: "More Insurance Global Players eyeing Indian Markets"  
<http://www.thehindubusinessline.com/2008/03/31/stories/2008033150811401.htm>

<sup>29</sup> IRDA Report: Pension Markets and their future, accessed on 24<sup>th</sup> June, 2008

<sup>30</sup> As of August 2008, Appendix 1.1: Interview with Mr. Pankaj Desai

<sup>31</sup> Appendix 1.2: Interview with Mr. Andrew Cartwright

<sup>32</sup> Appendix 1.1: Interview with Mr. Pankaj Desai

<sup>33</sup> OASIS (Oregon Annual Social Indicators Survey), 2000

<sup>34</sup> Rita Mehra, "Live till a 100?", *Outlook Money Magazine*, October 2007



**Legal structure:**

There have been recent changes in the annuity market through PFRDA<sup>35</sup> Acts and regulatory policies such as introduction of tax exemption for investment in annuities<sup>36</sup>. The market is opening up to new players, and the government is encouraging growth of this industry as there is a large social welfare attached to its development.

**Economic influences:**

Current growth in the economy will have a trickle down effect on the annuity market, as increased wealth will increase potential investment in the segment. The equity market has a higher risk attached compared to an annuity investment, making it less attractive. The economy is entering a high interest rate cycle<sup>37</sup>, combined with rising inflation which is presently at 12.40%<sup>38</sup>

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<sup>35</sup> PFRDA(Pension Fund Regulatory and Development Authority)

<sup>36</sup> Appendix 2: SWOT Analysis

<sup>37</sup> Appendix 1.1: Interview with Mr. Pankaj Desai

<sup>38</sup> Wiki Answers: "What is the current inflation rate in India"

[http://wiki.answers.com/Q/What\\_is\\_the\\_current\\_inflation\\_rate\\_in\\_india](http://wiki.answers.com/Q/What_is_the_current_inflation_rate_in_india), accessed on Oct 2<sup>nd</sup> 2008.

**3.4: Industry structure and attractiveness - Michael Porter's 5 Force Framework**

**New Market Entrants:**

- Entry ease- Is relatively easy market to enter, with KMLI meeting legal and administrative requirements for entry
- New entrant strategy- Being a late entrant, KMLI is able to develop an effective strategy to enter the market.
- Routes to market- Current distribution channels can be used to distribute this product, providing a quick and inexpensive route into the market.

**Supplier Power:**

- Fund supply: Most funds to be invested in the annuity product come from funds already invested in KMLI. Hence, supplier power is low.

**Competitive Rivalry:**

- Number and size of firms- 12 firms currently in the market, with LIC having a monopolistic share of 90%.
- Industry size and trends- The annuity industry is valued at Rs 2000 crores and is growing at 150%
- Differentiation, strategy- Rates currently offered in the market are similar. However, if KMLI is able to implement its investment expertise in gaining a higher rate of return, it can offer better rates without compromising profit margins.

**Buyer Power:**

- Buyers size/number- There is a large market projected to be over 150 million for the annuity market.
- Product/service importance- Customer service and product are very important in the market, as the product structure and benefits define the product USP

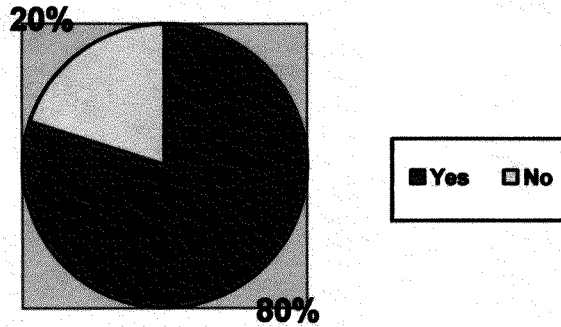
**Product and Technology Development,**

- Alternatives price/quality- There are few alternatives for the annuity product, as social security options in India are very limited.
- Trends- Social changes are promoting individuals to safeguard a steady income for their later years
- Legislative effects- The PFRDA Act creating tax exemptions provides incentive for investing annuities market

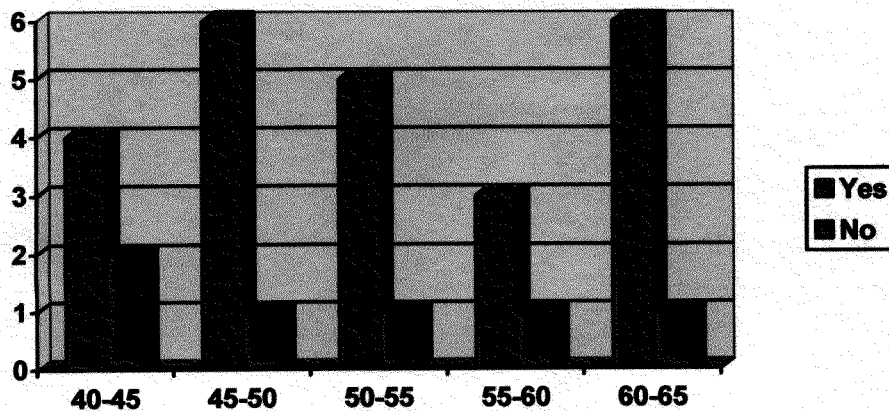
**3.5: Market demand: Primary Survey<sup>39</sup>**

Shown that:

- 24 people strongly in favour of the product
- 6 were not interested due to factors such as lack of need, desire to control their own savings etc.



**Chart 1: Percentage of people who are interested in investing in the annuity product**



**Chart 2: Responses of people according to their different age-brackets**

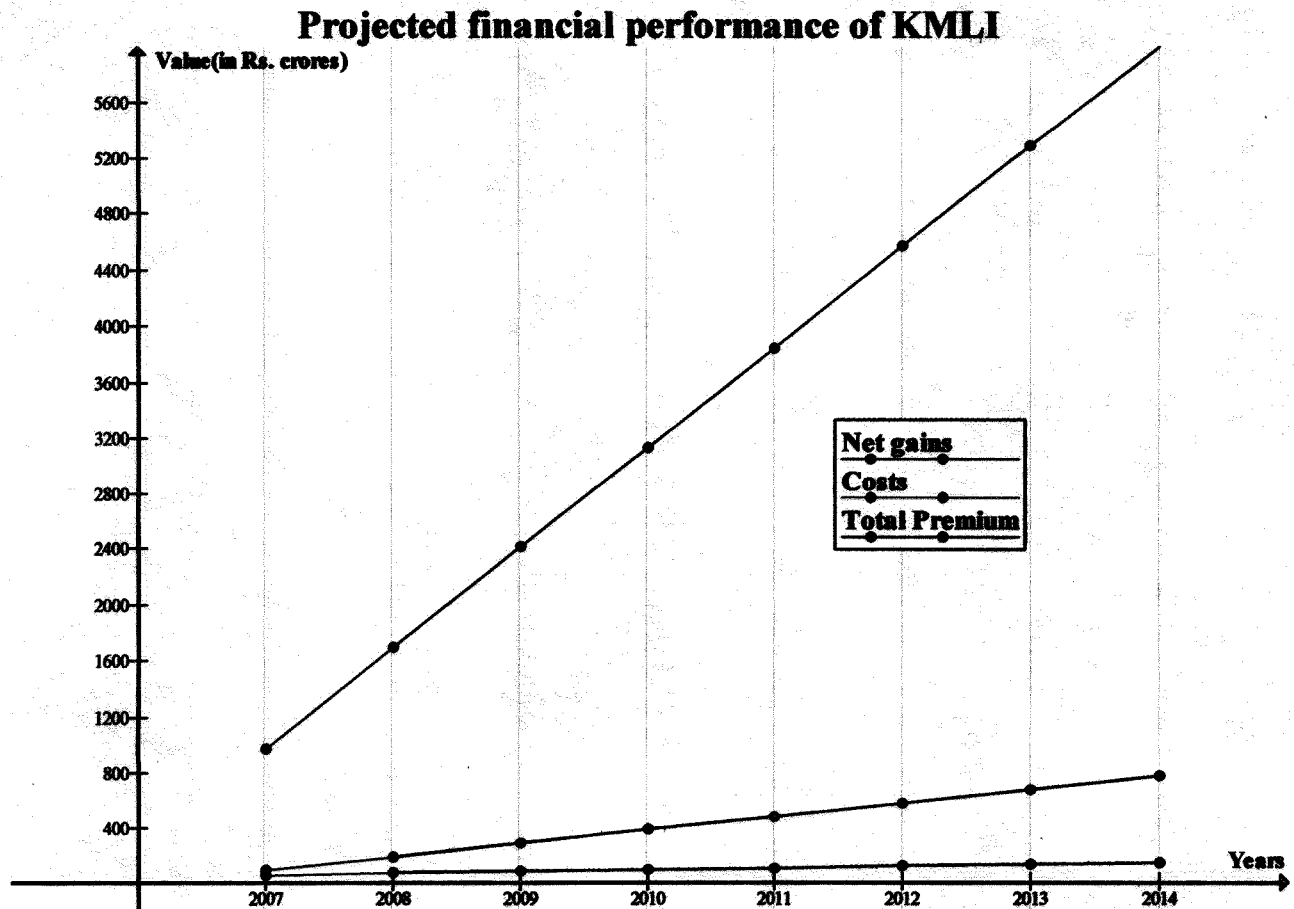
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<sup>39</sup> Refer to Appendix 6 for questionnaire and detailed results

## 4. Analysis and Evaluation

### 4.1 Financial analysis:

Financial performances of KMLI can be extrapolated assuming a growth rate of 80%<sup>40</sup> over the next 5 years, showing the following data:



### 4.2: Investment Appraisal:

A cash flow is created using units sold as obtained through interviews with the management.<sup>41</sup> The capital costs for the business include development of an application software system, training agents/distributors and administrative requirements. The sum of these costs is Rs 12 crores. Annuity sales are predicted to grow at 100%, 75%, 50%, 35% in the next four years and then at a constant rate of 20%.<sup>42</sup>

<sup>40</sup> 80% = growth rate in the previous financial year

<sup>41</sup> With current and projected interest rate and inflation values used

<sup>42</sup> Appendix 1.1: Interview with

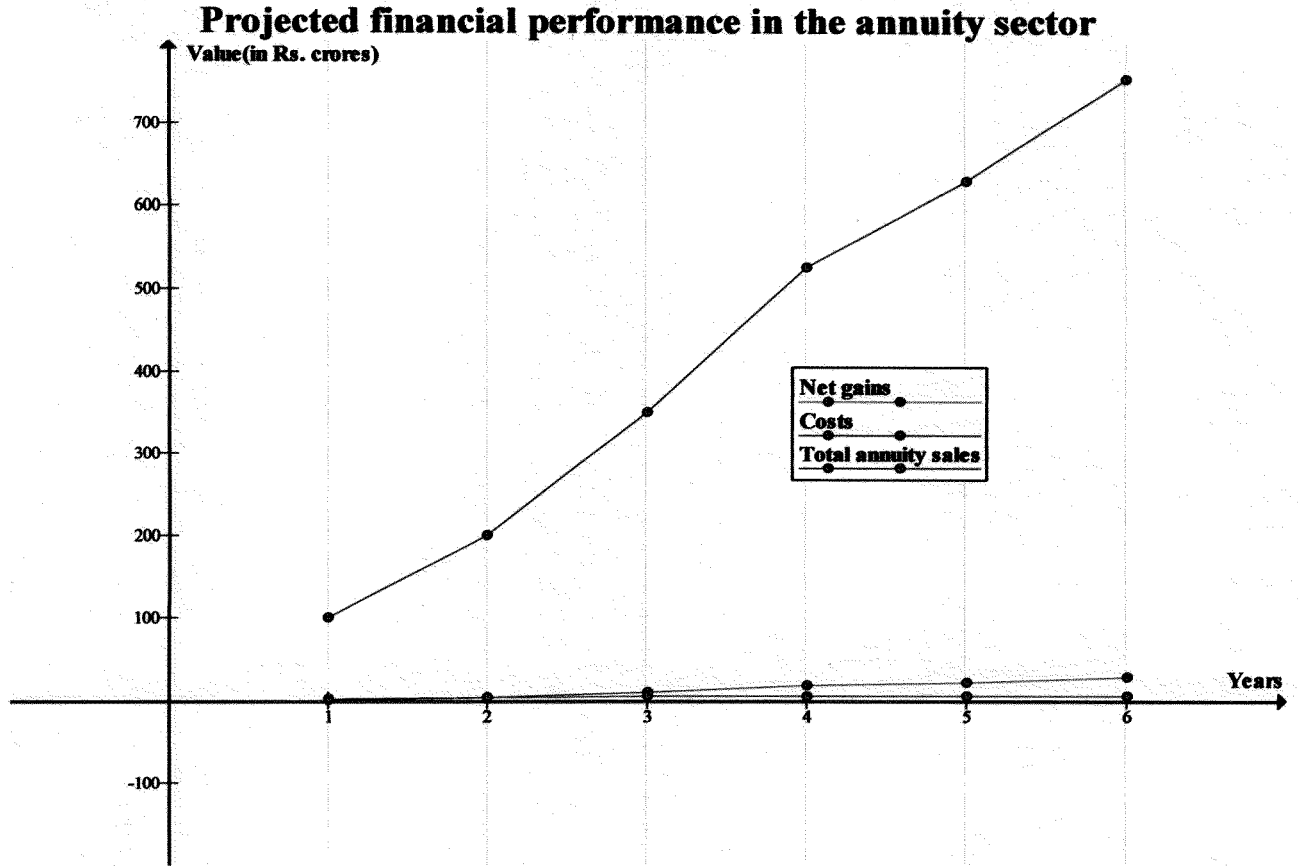
**4.2.1. Projected cash flows for annuity product:**<sup>43</sup>

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>
<b>Annuity Sale</b>	100	200	350	525	630	756
<b>VNB Margin</b>	4.25%	4.34%	4.49%	4.62%	4.63%	4.63%
<b>Costs</b>	(3)	(4.50)	(5.08)	(6.1)	(6.24)	(6.45)
<b>VNB</b>	4.25	8.68	15.72	24.26	29.17	35.00
<b>Net gain</b>	1.25	4.18	10.64	18.15	22.93	28.55
<b>Capital Cost</b>	12					

*Source: Appendix 1.1: Interview with Mr. .*

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<sup>43</sup> All values in Rs. Crores, 1 crore = 10 million



Source: Appendix 1.1: Interview with Mr.

**4.2.2. Payback Period:** The payback period is 2 years and 234 days.<sup>44</sup>

**4.2.3 ARR (Average rate of return):** The ARR is 102.42%.<sup>45</sup>

Year	0	1	2	3	4	5
Discounting factor (at 10% <sup>46</sup> )	1	0.909	0.826	0.751	0.683	0.621

<sup>44</sup> Appendix 3: Financial Analysis- Shows working of the results

<sup>45</sup> Appendix 3: Financial Analysis – Shows working of the results

<sup>46</sup> This is approximately the value of the interest rate, combined with the risk factor in India

**4.2.4. NPV (Net Present Value):**

<u>Year</u>	<u>Discount Rate</u>	<u>Cash flows</u>	<u>Discounted cash flows</u>	
1	0.909	1.25	1.13625	
2	0.826	4.18	3.45268	
3	0.751	10.675	8.01692	
4	0.683	18.155	12.3999	
5	0.621	22.929	14.2389	
		57.189	39.2447	Net present value
			(12)	Capital cost
			27.2447	NPV

An ARR of 102% is exceptional and though market dynamics would probably lower profits, a positive growth is ensured. The short payback period and a positive NPV indicate excellent profitability. However, all calculations are based on variables on existing market competitors and estimates, and may be skewed due to dynamism of influencing factors.

**4.3. Non-financial analysis:**

The nascent stage of the annuity market provides innumerable growth opportunities for businesses. The legal and regulatory framework is still in its initial stages. The immense grasp over the market by LIC<sup>47</sup> may be a deterrent for new entrants<sup>48</sup>, since any tactic of predatory pricing adopted by this established player may be disastrous for a new-entrant. However, if the company is able to develop a more efficient model, it may achieve more success than current players. Furthermore, KMLI's inherent investment acumen<sup>49</sup> will help it to gain increasing Y-O-Y rates of return from the investment market, and hence enable them to offer higher rates to their customers. KMLI currently has 1 million pension plan customers<sup>50</sup> implying that as funds move into the annuity phase, they can be invested with KMLI itself, giving it a ready consumer base. Furthermore, KMLI's established distribution network will reduce its costs, and time lag for penetrating the market.

<sup>47</sup> Life Insurance Corporation of India, the company with a 90% market share in the current annuity market

<sup>48</sup> Michael Porters 5 force analysis: Section 3.4 of summary of findings

<sup>49</sup> SWOT Analysis: Appendix 2

<sup>50</sup> SWOT Analysis: Appendix 2

## Business and Management HL

### Internal Assessment

May 2009

The Indian annuity market in the country being largely untapped, is a huge opportunity for KMLI as it can target 93% of Indians who lack provision for social security<sup>51</sup>. Also, the gap in the value of pension funds and annuity in the market indicates large available funds that can be invested in the annuity business. Social and legal factors also favour expansion into the annuity business since increased life expectancy and changing social structure will increase demand for the product. Legal acts such as the PFRDA Act increase awareness about annuity products and tax exemptions further promote its purchase.

However, high interest rates may pose a threat<sup>52</sup> to the business if a fixed return is promised to customers but future interest rates fall, attaching a risk to the annuities. There is also a mortality risk involved as further improvement in rates increases the duration over which payments have to be made by the business.

KMLI being a mid-size company has comparatively lesser internal economies of scale and its overall risk-taking ability may be inhibited by the size. Furthermore, KMLI's potential competitors<sup>53</sup> have around 2000 branches across the country, compared to KMLI's 178. Also, KMLI is largely an urban and semi-urban market player, which restricts its ability to tap a rural market.

The opportunity cost of investing in the annuity business is foregoing investment in the health insurance sector. However, evaluation of affecting factors indicates that the best option remains the rapidly developing annuity market.

Market research shows that there is a general positive response amongst potential customers, and there is an unfulfilled demand among the age group of 45-55, which KMLI can tap.

*Word count: 580 words*

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<sup>51</sup> Shailaja Neelkanthan "Pension markets and beyond", December 2007

<sup>52</sup> PEST- G Analysis: Appendix 3

<sup>53</sup> LIC, Bajaj Allianz, ICICI Prudential, LIC, ING Vyasa, Max NYLI, Tata AIG, Bharti AXA



## 5. CONCLUSION AND RECOMENDATIONS:

Both financial and non-financial factors governing the entry of KMLI into the annuities market show that the sector holds high potential and these market opportunities must be pursued. Payback, ARR, and NPV show returns of 100%, with a payback period below 3 years and a positive NPV, suggesting a low-risk, quick return investment opportunity that is profitable in the long run. Non-financial factors supporting this diversification include: a spectacular growth in the annuity market, increasing longevity and rising medical costs causing a surge in demand for the product and a rapidly expanding distribution network for the company combined with a high investment acumen and risk-taking capacity.

### 5.1. Recommendations:

- Further market research in target market to gauge product demand. Research can include - understanding features consumers demand in the product, creating a marketing strategy, gauging importance of value added services for customers.
- Further market research to understand better the deterministic market forces, and competitor positioning.
- The agency force must be trained to meet the needs of the new business.
- Further financial research is needed to comprehensively understand the business's profitability.
- An appropriate marketing mix must be created, differentiating KMLI's products from others in the market. This could include testing a prototype with the target market.

### 5.2. Possible biases in research/sources:

- The management may have biases reflected in their responses.
- Financial data obtained is based on various assumptions/estimations. Volatile economic factors may render these inaccurate, compounded by limitations of access to entirely objective data.
- Research sample was obtained using random stratified sampling yet might contain sampling discrepancies.

Extensive further research must be undertaken by the management in order to substantiate these findings, and ensure that all risks have been identified and covered before market entry. In particular, a detailed financial analysis is imperative, and the effect of this diversification on stakeholders beyond the management must be considered.

### 5.3. Unresolved questions:

- Will KMLI be able to successfully create and launch a differentiated product that will not meet the same fate as 11 of its previous competitors?
- What will be the training and market development costs that KMLI will have to bear after market entry?
- Is the market precariously over-dependent on volatile external factors such as interest rates, mortality rates and legislative measures by the PFRDA?

Business and Management HL

Internal Assessment

May 2009

Resolving and evaluating these factors will help gain a clearer view on whether the diversification of KMLI into the annuity market is indeed profitable.

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