

KIBABII UNIVERSITY



UNIVERSITY EXAMINATIONS

2019/2020 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER

SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCI 442E

COURSE TITLE: CONTEMPORARY ISSUES IN INSURANCE

DATE: 05/02/2021

TIME: 8.00AM-10.00AM

INSTRUCTION TO CANDIDATES

- 1) The paper contains **FIVE** questions
- 2) Attempt **THREE** questions
- 3) Question **ONE** is Compulsory

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

SECTION A

QUESTION ONE (30 MARKS)

MARKETING STRATEGIES OF BAJAJ ALLIANZ

Allianz Bajaj Life Insurance Co. Ltd., came into existence on March 12, 2001, whereas Bajaj Allianz General Insurance Co. Ltd., was formed on May 2, 2001. Both the organizations came into existence when the German insurance company Allianz AG (Allianz) and Bajaj Auto of India (Bajaj) came together to form a joint-venture in the Indian insurance market. Allianz of Germany is an insurance company, which was established in Berlin in 1980. Over the years, the company was able to spread its operations across 70 countries worldwide. Bajaj, an asset management company, was the largest two- and three-wheeler manufacturer in India and also one of the largest two-wheeler manufacturers in the world. The two companies entered into a joint venture to utilize their unique expertise and strengths in the Indian insurance industry. Bajaj had knowledge of the Indian market as well as an extensive distribution network in India. Allianz, on the other hand, had 110 years of rich experience in the insurance field. In 2004, the joint venture offered life and non-life products under Bajaj Allianz Life Insurance Co. Ltd., (renamed in 2004) and Bajaj Allianz General Insurance Co. Ltd., respectively.

Allianz Bajaj Life Insurance Co. Ltd., changed its corporate name to Bajaj Allianz in 2004, as market research conducted by the company showed that Bajaj had a better brand recall in the minds of Indians than Allianz. The company also implemented a common logo (the Bajaj Auto logo) for Bajaj Allianz Life Insurance Co. Ltd., and Bajaj Allianz General Insurance Co. Ltd., as it was felt that this would help increase the visibility and familiarity of the brand Bajaj Allianz in the minds of consumers. According to Sam Gosh (Gosh), Country Manager, Allianz and CEO, Bajaj Allianz, "We are not only acquiring the new name, but have put in motion a new level of energy and commitment to delivering the best products. The name change coupled with aggressive strategic market initiatives to reach service customer better will give us an unbeatable position in the insurance market in this country and both life and general companies together can unleash the "Power of one" and be the leader in the insurance industry." The company in the same year launched around 100 satellite branches and various new life and non-life group products to further push the growth initiatives.

The company also restructured its hierarchy. The multiple-layered centralized authority was reformed and made into a decentralized system. Branches were given the authority and freedom to accept or reject proposals instead of merely sending them to main offices. Branch managers were asked to set their own targets. Gosh said, "We are restructuring the company to keep the company in the growth mode.....Further, we have reduced the layers of management in the sales area to ensure faster response to consumer demands."

Bajaj Allianz expanded its area of operations by introducing what it called the Hub and Spokes Model. Under this strategy, two or three satellite offices operated under one branch. The branch issued policies and the satellite offices were made responsible for the collections. By October 2004, the company opened around 170 satellite offices throughout the country and the number of cities where it had its presence increased from 60 to 117.

In January 2004, Bajaj Allianz also introduced its first unit-linked policy UnitGain, keeping in mind the increasing popularity of such policies. By June 2004, the company was able to generate 60% of its sales from the unit-linked policy plans. In 2004, Bajaj Allianz entered into a tie-up with DSP Merrill Lynch (a financial services company) for the fund management of its unit linked policies to improve the credibility of the policy.

To ensure a good distribution system, Bajaj Allianz adopted a multi-channel distribution strategy, which involved tie-ups with agents, brokers, travel agents, auto manufacturers, Non-Banking Financial Companies, Bancassurance partners, etc.

Bajaj Allianz entered into bancassurance tie-ups with various banks like Development Credit Bank, J & K Bank, Bank of Rajasthan, Bank of Punjab, Karur Vysya Bank, Lord Krishna Bank and Punjab and Sind Bank. According to the company, the tie-up with banks enabled it to expand its reach by targeting the banks' customers. Further, in February 2003, Bajaj Allianz introduced the innovative "unemployment cover" in association with IDBI bank. The unemployment cover was offered along with the housing loan of IDBI Bank. Under this offer, the bank covered the first three instalments of the loan in case the customer lost his job. It also had Third Party Administrators (TPA) for health insurance products.

The insurance company offered innovative products to suit the diversified consumer needs. In fact, Bajaj Allianz was the first insurance company ever in India to introduce a wedding insurance cover. Its products also included an insurance cover for Amarnath Yatris, film producers, event management companies, etc. The company also initiated online insurance policies and settlement of claims that did not involve cash. Bajaj Allianz was the only insurance company in India that offered unique credit insurance for travel agents. As per the guidelines of the airline companies, air travel agents in India were required to produce a bank guarantee equivalent to their turnover, against possible default of payments. Bajaj Allianz offered travel agents a customized product that covered the agents' dues to the airlines for a whole year. Bajaj Allianz was the first insurance company ever to introduce a wedding insurance cover in India. Within a very short time, Bajaj Allianz became one of the major players among the private insurers in India. In 2003-04, the company earned a premium income of Rs.480 cr and sold around 1.2 million policies for the year.

Adopted from: The ICFAI Press, May 2006

Required:

- a) Do you think Allianz has selected the right partner for a joint venture to enter the Indian Insurance Market? Justify your stand (6 Marks)
- b) Outline the success factors and future of bancassurance of Allianz Bajaj Life Insurance Company with Development Credit Bank (6 Marks)
- c) Discuss the technological challenge being faced by the Allianz Bajaj Life Insurance. (6 Marks)
- d) Briefly explain the concept wedding insurance cover as micro insurance product by Allianz Bajaj Life Insurance (6 Marks)
- e) Explain the major differences between social insurance programs and public assistance (6 Marks)

QUESTION TWO (20 MARKS)

- a) The micro insurance industry is still in its infancy, but it can play an important role in the risk management and consumption smoothing of low income households. Describe the key principles in micro insurance (10 Marks)
- b) Explain the status of insurance coverage availability for attacks involving nuclear, biological, chemical, or radiological weapons (10 Marks)

QUESTION THREE (20 MARKS)

- a) What is e-insurance? Discuss the major factors which affect the growth and prospects of e-insurance (10 Marks)
- b) Discuss the benefits and limitations of IT application in insurance. (10 Marks)

QUESTION FOUR (20 MARKS)

- a) The OASDI program and private life insurance have both similarities and differences. Compare the OASDI program with private life insurance with respect to each of the following:
 - i). Legal requirement to obtain insurance coverage (3 Marks)
 - ii). Selection of benefit amounts (3 Marks)
 - iii). Method of financing (3 Marks)
 - iv). Relationship between contributions or premiums to benefits received (3 Marks)
 - v). Right to benefits (3 Marks)
- b) Briefly explain the advantages of a compulsory OASDI program (5 Marks)

QUESTION FIVE (20 MARKS)

The central concept for all Takaful models is the segregation between participants' and shareholders' funds, because the operator role is only to manage participants' funds on their behalf. There are, however, several alternative business models that can govern the relationship between the policyholder and the Takaful operator.

Required:

- a) Describe four alternative models of takaful (12 Marks)
- b) With the aid of practical examples, distinguish conventional and Takaful reinsurance (8 Marks)