INSURANCE EXAM · IC-102

IC-102 Insurance Business Ecosystem

Revision book

8	2	163
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 8

CHAPTER 1

Business Enterprise And Its Environment

1.1	Enterprise and environment	1.2	Economic evolution
1.3	Insurance as an enterprise	1.4	Business, objectives and the environment
1.5	PESTEL	1.6	Political
1.7	Economic environment	1.8	Socio-cultural
1.9	Technology	1.10	Ecological
1.11	Legal and ethics	1.12	Industry environment

MUST KNOW

1. Enterprise = French Entreprendre, "something undertaken"; business enterprise = valued outcomes for end customers + revenue and profit from paying customers
2. **Economic evolution = 3 processes:** technology, business enterprise (entrepreneurs), enterprise design (management)
3. Insurance = pooling (law of large numbers) + mutuality; covenant (family, state, community mutual) vs contract (insurer)
4. **4 aspects of insurance:** asset, risk (perils, hazards), pooling or mutuality, legal contract
5. Macro environment (general, remote, mega) scanned by PESTEL
6. Industry = production (primary, secondary); commerce = trade + auxiliaries
7. **Technology change:** convergent (incremental) vs divergent (discontinuity)
8. **Law:** statute law + common law; ethics = doing what is right
9. Industry environment is closer to the firm; Porter's forces 1-2: rivals, new entrants

1.1 Enterprise and environment

- **Business enterprise = system:** inputs (raw materials, human capital, technology) + energy and information -> outputs
- **Animals:** environment = nature; humans: environment = mainly social, built on narratives
- Cognitive revolution about 70,000+ years ago
- **Narratives:** marriage, religion, nationality, trade, law, democracy, government, science, human rights
- Human enterprises cause ESG risks (Environmental, Social, Governance)
- **Effect works both ways:** iPhone, Android, Amazon changed society

TRAP

Human enterprises are NOT limited by nature as animals are

1.2 Economic evolution

- **3 processes:** technology; business enterprise (entrepreneurs); enterprise design (strategy, structure, management, culture)
- **New fields:** Marketing, Finance, Operations
- ICT revolution -> knowledge economy; new issue: the knowledge worker

Technology	Meaning
Physical	Tools, machines, data: turns inputs into outputs
Social	Organising people: money, venture capital, rule of law

- The two co-evolve; land system (ox, plough, feudalism) -> factory and assembly line
- **Ford:** assembly line = physical; division of labour = social

> **TRAP**
> ICT is physical technology

1.3 Insurance as an enterprise

- Pooling = mathematical; law of large numbers: larger pool, better prediction
- Mutuality = social; motto "All for one and one for all"
- **Natural insurance:** elephant herd looks after the orphan; answer to entropy

Basis	Used by
Covenant	Joint family, state social security, community mutual
Contract	Insurance companies

- **4 aspects:** asset; risk (perils = causes, hazards = change chance or impact); pooling or mutuality; contract
- **Environment effects:** economy makes assets; global warming changes risk; inflation and capital market volatility affect life insurance; technology changes sales and service
- **Insurer = financial intermediary:** retail market (premium, claims) + investment market (funds, returns)

> **TRAP**
> Peril = cause; hazard = factor changing chance or impact

1.4 Business, objectives and the environment

- **Elements:** economic activity, regular basis, profit from customers, risk, entrepreneurs
- **Schumpeter:** entrepreneurs = "captains of industry"

Economic objectives	Social objectives
Adequate profit, survival, growth	Employment, quality at fair price, better living, environment

- **7 contributions:** living standard; resource allocation; quality and variety; utilities; employment; workers' welfare; nature protection
- Consumer satisfaction = backbone of modern business
- **Keith Davis:** environment = all conditions, events, influences around the business
- Macro context vs micro unit; forces are given constraints; collective impact is large; business must be proactive

TRAP

A firm cannot easily change its environment forces

1.5 PESTEL

Letter	Meaning
P	Political
E	Economic
S	Socio-cultural
T	Technological
E	Environmental (ecological)
L	Legal

- Macro = general / remote / mega; reach: local, regional, national, international

TRAP

Rivals and new entrants are NOT PESTEL; they are industry forces

1.6 Political

- **1948 and 1956 policy:** public sector at the "commanding heights"; licensing for private sector
- **1991:** liberalisation
- **Promotes:** subsidies to SSIs, tax benefits, R&D support, priority sector; government is a big customer
- **Restricts:** monopoly and restrictive trade practice rules, pollution laws, inclusiveness laws
- **Others:** rule of law, corruption, political instability, ease of doing business (regulatory impediments, property rights, political uncertainty)

TODAY'S RULE

FDI in insurers up to **100%** under section 3AA (Sabka Bima Sabki Raksha Act **2025**); earlier caps **26%** (**2000**), **49%** (**2015**), **74%** (**2021**); prior approval for share transfers above **5%**

1.7 Economic environment

Group	Concerned with
Industry	Production and processing of goods
Commerce	Storage and distribution of goods

- **Industry:** adds form utility; producer goods and consumer goods
- **Primary:** extractive (mining, farming, fishing, hunting) + genetic (agriculture, animal husbandry, dairy, poultry, sericulture)
- **Secondary:** manufacturing + construction (buildings, bridges, roads, railways, canals)
- Commerce = trade + auxiliaries (transport, banking, insurance, warehousing, information)
- **Trade:** cash or credit; direct or indirect
- Home trade = wholesale + retail; foreign trade = exports, imports, exchange of currency
- Foreign exchange = foreign currency to pay imports

- **Resources:** raw materials, capital, labour
- **Prices:** business cycles, chain reaction, inflation cuts demand
- **Customers:** incomes, prices, employment, wages

Policy	Meaning
Fiscal	Tax and spend, annual budgets
Monetary	Money supply, banking regulation

TRAP

Dairy, poultry, sericulture = genetic; steel making and construction = secondary

TODAY'S RULE

GST on premium **18%** (replaced service tax **1 Jul 2017**); individual life and health policies exempt from **22 Sep 2025**; group stays **18%**; goods-vehicle third-party motor **5%**

1.8 Socio-cultural

- **Demographic:** literacy, sex ratio, birth rate, age, education, life style, location, mobility
- **Psychographic:** beliefs, values, faiths, customs, traditions, folk ways
- **Trends:** middle class, women at work, literacy, urbanisation, migration, family change, demographic transition, millennials and Z, media

1.9 Technology

- Technology = applying science to practical life
- **Waves:** steam, electricity, assembly line, car; IT; superconductivity, robotics, fibre optics; e-commerce, search, Android, AI, platform enterprise
- **Case:** Xerox **93%** of copier market, over 500 patents; Canon entered about **1970**; Canon copier revenue about **Rs 3,00,000 crore**

Change	Meaning
Convergent	Small steps within the framework; **10-12 years** in India
Divergent	Breaks the framework: Swiss watches, iPhone

- **Divergent causes:** deregulation, policy shift, nationalisation; radical technology

TRAP

Convergent = incremental; divergent = discontinuity

1.10 Ecological

- Resource endowments, weather, topography, location, ports decide industry location
- Steel mills near iron ore; cotton textiles in Mumbai, Ahmedabad, Coimbatore
- **Green concerns:** habitat damage from industrialisation, urbanisation, pollution

1.11 Legal and ethics

- Statute law = made by legislation; common law = customs, equity, judicial precedent (Blackstone: unwritten maxims and customs)

- **Insurance:** Insurance Act **1938**; IRDA Act **1999**
- Insurable interest and utmost good faith come from common law
- Law is not static; follow spirit of the law
- Ethics = doing what is right, not what one has a right to do

> **TODAY'S RULE**
>
> Regulator is IRDAI; Companies Act **2013** replaced the **1956** Act
>
> **Labour codes from 21 Nov 2025:** Social Security **2020**; OSH and Working Conditions **2020** (factories); Industrial Relations **2020**; Wages **2019**
>
> Policyholder Regulations **2024** (from **1 Apr 2024**); Master Circular **5 Sep 2024**

1.12 Industry environment

- Second level; businesses with same or similar product and customer need
- Some forces touch all industries (national income growth, inflation); some touch some more (custom duties)
- Porter's five forces (first two here)
- **Force 1 rivals:** intensity of competition (number, strength) + basis (returns, service, risks covered)
- **Force 2 new entrants:** high potential revenue and profit attracts them

CHAPTER 1 (CONTD.)

Business Enterprise And Its Environment

1.1	Five forces: the four after rivals	1.2	Defining the industry
1.3	Micro environment: stakeholders	1.4	Why few firms soar
1.5	Growth stages	1.6	Environment scanning (5 steps)
1.7	Strategy	1.8	Ansoff's Matrix
1.9	Future	1.10	Quick facts

MUST KNOW

1. **Five forces (Porter):** rivals, new entrants, buyers, suppliers, substitutes.
2. **Six stakeholders:** shareholders, creditors, employees, customers, partners, society.
3. CLTV (life) = premiums paid + future premiums + cross-selling + referral value.
4. **Growth stages:** customer discovery, market discovery, stakeholder discovery.
5. **Porter:** operational effectiveness = doing better; strategy = being different (cost or differentiation, plus focus).
6. **Value disciplines:** operational excellence, product leadership, customer intimacy.
7. **Ansoff:** market penetration, market development, product development, diversification.
8. VUCA before; BANI after Covid. Resilience = keep core purpose when things change.
9. **FDI in an insurer:** up to **100%** (s.3AA).

1.1 Five forces: the four after rivals

Force	High when	Insurance case
New entrants	Profits attractive; new differentiated features win niches	New life and general insurers in last 2 decades
Buyers	Many sellers or few buyers; standard product; low switching cost; price-conscious	Few rich, savvy customers
Suppliers	Few and concentrated; need the industry little; switching costs; unique supply	IT software firms, brokers
Substitutes	Attractive price/performance; low switching cost	E-commerce vs malls; mobile vs phone, camera, TV

- **Rivals:** intensity (more or evenly matched players) and basis (price or differentiation).

> **TRAP**
> Worst market = few buyers on whom revenue depends AND buyers have many choices.

- **Supplier tests (4):** concentration; dependence on industry; switching cost (e.g. Windows); differentiated or commodity.
- **Strong suppliers:** costlier supply, higher costs.

TODAY'S RULE

FDI up to **100%** of paid-up equity (s.3AA, Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act **2025**). Older limits: **26%** (**2000**), **49%** (**2015**), **74%** (**2021**). Makes entry easier.

GST **18%** on premium; individual life and health policies GST-exempt from **22 Sep 2025**; group policies stay at **18%**.

1.2 Defining the industry

- Not too broad (focus lost); not too narrow (miss emerging forces).
- **Two dimensions:** scope of products/services; geography (regional, national, international).
- Technological convergence breaks walls (phone + camera + music + TV). Insurance: financial market convergence, Insuretech.

1.3 Micro environment: stakeholders

- **Shareholders:** Board represents them; owners = principal, executives = agents; aim = shareholder value (return above cost of capital); can mean closing divisions, job cuts; bonuses.
- **Creditors:** banks, bond and FD holders; want regular interest, safe principal; credit rating agencies.
- **Employees:** security, growth, pay, learning, recognition, work-life; Millennials (post-**1980**), Gen Z (post-**2000**); diversity, gender equality, stress, remote work, AI.
- **Customers:** winning new costs far more than keeping; life insurance depends on premium inflow and float (how long funds are kept).
- **Partners:** outsourcing, offshoring; Apple, Dell; KPO units in Bangalore; aim = lower cost, specialisation, synergy.
- **Society:** worker safety and health, pollution norms, CSR; motives = altruism and business goodwill.

FORMULA AND WORKED SUM

- CLTV = premiums to date (incl. current) + future premiums + cross-selling premiums + referral value (4 parts)

- Voice of Customer = key customers' feedback; clients, patrons, advocates.

TODAY'S RULE

Policyholder protection: Protection of Policyholders' Interests, Operations and Allied Matters of Insurers Regs **2024** (from **1 Apr 2024**). Free look **30 days** (life and health, **1 year** or more).

Four labour codes from 21 Nov 2025: Social Security **2020** (compensation, ESI, EPF, gratuity), OSH **2020** (factories), Industrial Relations 2020, Wages **2019**.

1.4 Why few firms soar

- **One estimate:** 582 million would-be entrepreneurs; 334 million registered firms; about 90 in 100 small; under 60,000 listed; top hundred about 32 trillion USD.
- **Three distinctions:** created or found a market; built a company, not just a business; embraced the future.
- Solopreneur = "is the enterprise". A business is not a company (a system).

TRAP

Most stay small; scaling needs many stakeholders and public funding.

1.5 Growth stages

Stage	Task
Starting up	Entrepreneur spots needs and gaps; many founders are only technicians. Examples: Asian Paints, Amazon
Customer discovery	Find customers who find you; Iron Law: market matters
Market discovery	Reach large segments; competitive edge; brand footprint
Stakeholder discovery	Capital, staff loyalty, customer goodwill, supplier partnerships

> **TRAP**
> Marketing Myopia = inward, short-sighted. Business Myopia = "what got us here will take us there" (hits established firms).

- Every enterprise is a hypothesis; customers able and willing to buy must prove it.
- Insurance gap = need for cover minus actual cover.

1.6 Environment scanning (5 steps)

- 1 Take an "as is" look (economic, social, political, technological, legal, environmental).
- 2 List changing factors as trends.
- 3 Pick key drivers in priority order ("forces at work").
- 4 Build alternative scenarios (optimistic, normal, pessimistic; or most likely, likely, less likely).
- 5 Recommend actions per scenario using strengths and weaknesses.
- SWOT = Strengths, Weaknesses, Opportunities, Threats.

1.7 Strategy

- **Tools:** TQM, benchmarking, re-engineering, change management: raise operational effectiveness, may dull strategy.

> **TRAP**
> Operational effectiveness = same activities better. Strategic positioning = different activities or same activities differently.

- **Porter bases:** cost or differentiation; plus focus (chosen segments).

Discipline	Meaning
Operational excellence	Reliable, hassle-free, lowest price; arm's-length relations
Product leadership	Innovative products that change the rules (software)
Customer intimacy	Lifetime bond, customised solutions; most stress on total customer experience

- **Life insurance operational excellence:** investment performance, cheaper mortality/morbidity, low overheads, fast issue and claims, quick service requests.
- Discipline shows in value chain (inputs, operations, distribution, service), structure and culture.

1.8 Ansoff's Matrix

Path	Product	Market
Market penetration	Present	Present
Market development	Present	New
Product development	New	Present
Diversification	New	New

- **Penetration:** more agents, more channels. Development: metros to tier 2-3 and rural. Product: new savings and term plans. Diversification: Takaful by a foreign firm.
- **Expansion work:** brand, investor relations, talent, culture, supply chain, vendors.
- **Growth tools:** planning and performance budgeting, Balanced Scorecard, appraisal, MIS, performance dashboards.

1.9 Future

- VUCA = Volatile, Uncertain, Complex, Ambiguous. BANI = Brittle, Anxious, Non-linear, Incomprehensible (post-Covid).
- Resilience = keep core purpose and integrity in changed circumstances; beyond it: win the future.
- **Needs:** understand Millennials and Gen Z; master ICT; platforms and ecosystems; social vision.

1.10 Quick facts

- Enterprise from French Entreprendre. Homo sapiens = human beings. Insurance = risk transfer.
- **Primary:** mining. Secondary: construction. Tertiary: consulting, insurance.
- **Demographic:** age, income, gender, occupation. Habits are not.