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# Insurance Industry in India – Prospects and Challenges

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***Abstract: Indian economy and industry has undergone significant transformation since 1991-moving away from state controlled to a competitive market economy. The most remarkable of this transformation has been noted in the financial sector, particularly, in the Indian Insurance Industry which has opened up to all competitors- integrating financial services to the global economy. IRDA was established in 1999 to protect the interest of policyholders for promoting and ensuring orderly growth of the insurance industry and for matters connected therewith and also to amend the Insurance Act 1938, LIC Act 1956 and G.I. Business Act 1972. Under IRDA Act, 1999, Indian Insurance company means, any insurer being a company which is formed and registered under the companies Act, 1956, in which the aggregate holding of equity shares by a foreign company do not exceed 26% paid up equity capital of such Indian Insurance company and whose sole purpose is to carry on life or general or re-insurance business. Enhancement of this 26% to 49% is at higher level discussion stage.***

## I. INTRODUCTION

### WORLD INSURANCE MARKETS

1. As per the World Insurance Report, published by the reinsurance major “Swiss Re”, the global direct premium during 2011 dropped by 0.8 per cent against a surge at 2.7 per cent growth witnessed in the previous year. Globally, life insurance premium accounted for 57 per cent of total insurance premium. This share is higher in advanced economies than in the emerging markets. During 2011, global life insurance premium dropped by 2.7 per cent to USD 2627 billion. The premium volume fell in Western Europe, China and India, whereas, it rose in Middle East and Latin America.
2. The analysis and growth experience of the insurance industry in most countries indicate that the deepening and widening of the insurance services are positively correlated to the degree of competition and the number of firms in the market. In a closed and restricted market environment, the growth of insurance services slows down. The countries which have followed the open and liberalized policy have experienced quantum jump in the insurance services.
3. Another trend is that the growth was by and large higher in those countries where relatively less controls were imposed on insurance industries. Regulations and Controls if persuaded and imposed beyond a point may prove to be inhibitive and counterproductive.

### INDIAN INSURANCE SECTOR

1. After opening up of Insurance sectors, the capital requirements for starting a general or life insurance company is equity paid-up capital of Rs.100 crore and for starting a reinsurance company it is Rs.200 crore. The solvency margin requirement shall be highest of the following
   a) Rs.50 crore (Rs.100 crore for reinsurer); or (b) a sum equivalent to 25% of the premium income; or (c) a sum equivalent to 30% of net incurred claims.

2. As at end-September 2013, there are fifty-six insurance companies operating in India; of which thirty are in the life insurance business and twenty-seven are in non-life insurance business. In addition, General Insurance Corporation (GIC) is the sole national reinsurer. The life insurance industry recorded a premium income of `2, 87,072 crore during 2011-12 as against 2,91,639 crore in the previous financial year, registering a negative growth of 1.57 per cent. While private sector insurers posted 4.52 per cent decline (11.08 per cent growth in previous year) in their premium income, Life Insurance Corporation (LIC), the fully state owned insurance company, recorded 0.29 per cent decline (9.35 per cent growth in previous year), in its total premium underwritten. While the renewal premium accounted for 60.31 per cent (56.66 per cent in 2010-11) of the total premium received by the life insurers, first year premium contributed the remaining 39.69 per cent (43.34 per cent in 2010-11). During 2011-12, the growth in renewal premium was 4.77 per cent (6.23 per cent in 2010-11). First year premium registered a decline of 9.85 per cent in comparison to growth of 15.02 per cent during 2010-11.

## II. Penetration and Density

1. The potential and performance of the insurance sector is universally assessed with reference to two parameters, viz., insurance penetration and insurance density. These two are often used to determine the level of development of the insurance sector in a country. Insurance penetration is defined as the ratio of premium underwritten in a given year to the Gross Domestic Product (GDP). The insurance penetration in India, which surged consistently till 2009-10, has slipped since 2010-11 on account of slowdown in life insurance premium as compared to the growth rate of the Indian economy. Life insurance penetration had consistently gone up from 2.15 per cent in 2001 to 4.60 in 2009, before slipping to 4.40 per cent in 2010 and further slipping to 3.40 per cent in 2011.

2. Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in USD for convenience of comparison)( Per capita premium). India has reported consistent increase in insurance density every year since the sector was opened up for private competition in the year 2000. However, for the first time in 2011, there was a fall in insurance density. The life insurance density in India has gone up from USD 9.1 in 2001 to USD 49.0 in 2011 though it reached the peak of USD 55.7 in 2010. The Insurance density of non-life sector reached the peak of USD 10.0 in 2011 from its level of USD 2.4 in 2001.

## III. Indian Insurance in the Global Scenario

1. In the life insurance business, India ranked 10th among the 156 countries, for which the data is published by Swiss Re. During 2011-12, the life insurance premium in India declined by 8.5 per cent (inflation adjusted). During the same period, the global life insurance premium declined by 2.7 per cent. The share of Indian life insurance sector in global life insurance market stood at 2.30 per cent during 2011, as against 2.54 per cent in 2010.

REGISTERED INSURERS IN INDIA
(As on 30th September, 2012)

| Type of business | Public Sector | Private Sector | Total |
|---|---|---|---|
| Life Insurance | 1 | 23 | 24 |
| General Insurance | *6 | **21 | 27 |
| Reinsurance | 1 | 0 | 1 |
| **Total** | **8** | **44** | **52** |

*Includes specialized insurance companies - ECGC and AIC.
** Includes four Standalone Health Insurance Companies – Star Health & Allied Insurance Co., Apollo Munich Health Insurance Co., Max Bupa Health Insurance Co., and Religare Health Insurance Co.

TABLE.1

**REAL GROWTH IN PREMIUM DURING 2011***

(In per cent)

| Regions/Countries | Life | Non-Life | Total |
|---|---|---|---|
| Advanced countries | -2.3 | 0.5 | -1.1 |
| Emerging markets | -5.1 | 9.1 | 1.3 |
| Asia | 0.5 | 7.0 | 2.2 |
| India** | -8.5 | 13.5 | -5.5 |
| **World** | **-2.7** | **1.9** | **- 0.8** |

**Source:** Swiss Re, Sigma No. 3/2012.
**Note:** * calendar year ** financial year 2011-12.

TABLE.2 - INSURANCE PENETRATION AND DENSITY IN INDIA

**INSURANCE PENETRATION AND DENSITY IN INDIA**

| Year | Life | | Non-Life | | Industry | |
|---|---|---|---|---|---|---|
| | Density (USD) | Penetration (percentage) | Density (USD) | Penetration (percentage) | Density (USD) | Penetration (percentage) |
| 2001 | 9.1 | 2.15 | 2.4 | 0.56 | 11.5 | 2.71 |
| 2002 | 11.7 | 2.59 | 3.0 | 0.67 | 14.7 | 3.26 |
| 2003 | 12.9 | 2.26 | 3.5 | 0.62 | 16.4 | 2.88 |
| 2004 | 15.7 | 2.53 | 4.0 | 0.64 | 19.7 | 3.17 |
| 2005 | 18.3 | 2.53 | 4.4 | 0.61 | 22.7 | 3.14 |
| 2006 | 33.2 | 4.10 | 5.2 | 0.60 | 38.4 | 4.80 |
| 2007 | 40.4 | 4.00 | 6.2 | 0.60 | 46.6 | 4.70 |
| 2008 | 41.2 | 4.00 | 6.2 | 0.60 | 47.4 | 4.60 |
| 2009 | 47.7 | 4.60 | 6.7 | 0.60 | 54.3 | 5.20 |
| 2010 | 55.7 | 4.40 | 8.7 | 0.71 | 64.4 | 5.10 |
| 2011 | 49.0 | 3.40 | 10.0 | 0.70 | 59.0 | 4.10 |

1. Insurance density is measured as ratio of premium (in US Dollar) to total population.
2. Insurance penetration is measured as ratio of premium (in US Dollars) to GDP (in US Dollars).
3. The data of Insurance penetration is available with rounding off to one digit after decimal from 2006.

**Source**: Swiss Re, Various Issues.

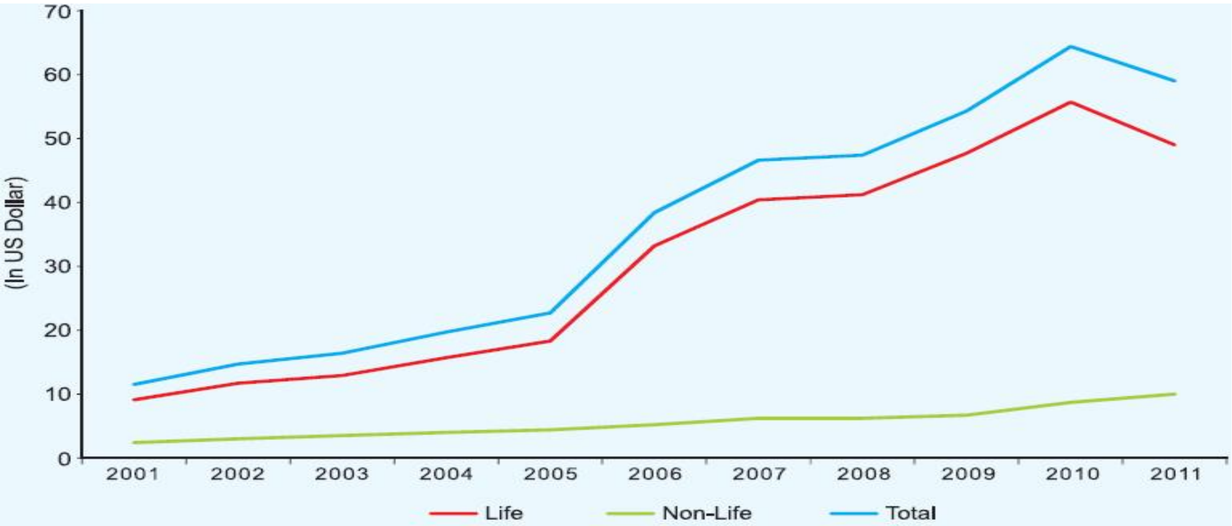


Fig: INSURANCE DENSITY IN INDIA

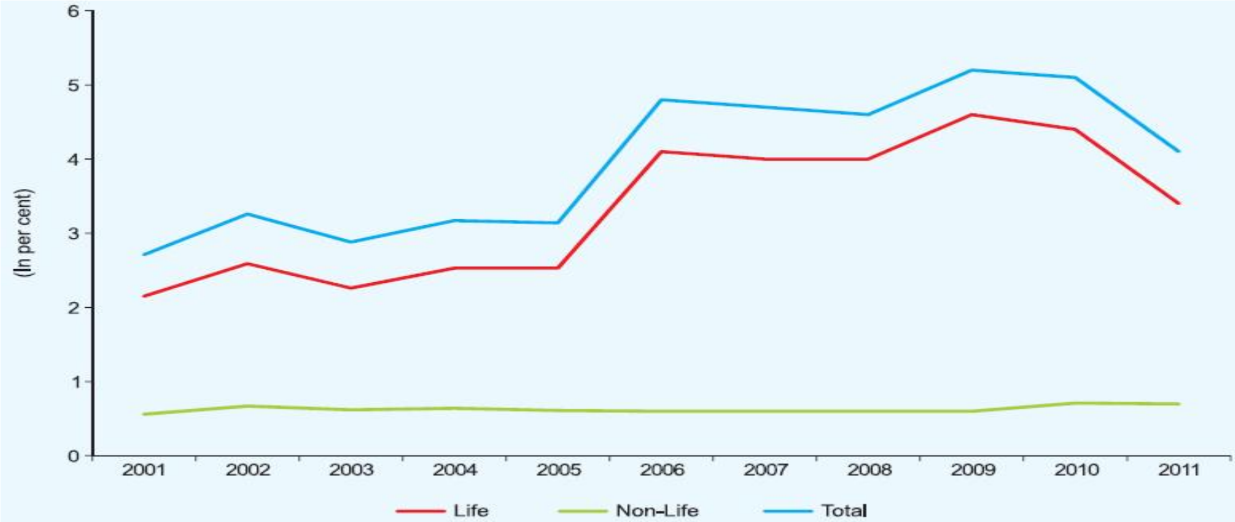


Fig: INSURANCE PENETRATION IN INDIA

## IV. RELATIONSHIP BETWEEN INSURANCE PENETRATION AND PER CAPITAL GDP

The ratio of insurance density to the insurance penetration is simply the per capita GDP, an indicator of per person economic activity of the economy. The per capita GDP is often regarded as a good proxy for the standard of living of the people in the economy and is often used to compare the relative standard of living between the economies.

There are several studies [Carter and Dickinson (1992), Enz (2000), Kamiya (2012), Sastry (2011), Sinha et al (2012), Zheng et al (2008), etc.], which have attempted to examine the nature of inter-relationship between the insurance penetration and the per capita GDP. These studies have revealed that a positive relationship holds between insurance penetration and per capita GDP. Insurance penetration normally increases with the increase in the per capita GDP. The relationship between the two could be linear or non-linear (curvilinear). A simple linear relationship will mean that the income elasticity of demand for insurance is a constant. In case, the relation is curvilinear, the elasticity would no more be a constant and would change with the level of per capita GDP and would be dictated by the mathematical form of the non-linearity (such as, exponential, logistic etc.). The studies of Carter and Dickinson (1992) and Enz (2000) indicated that the relationship between the insurance penetration and per capita GDP can be explained with an S-curve (a non-linear form). They demonstrated that the insurance penetration cannot go on increasing with the same pace forever with income per capita. The study of Enz (2000) proposed a logistic curve, which tracks an S-curve appropriately. Enz (2000) analyzed the insurance penetration by plotting it with the per capita GDP for select countries both for the life and non-life segments, separately. It revealed that there exists a level of per capita GDP at which the income elasticity of demand for insurance reaches to the maximum level for both segments (life and non-life) of insurance. Subsequent to this point of maxima, the insurance penetration starts decelerating (increasing at a slower rate) with the increase of per capita GDP. The study also attempted to identify the countries, which are consistently above or below the S-curve, and indicated that these deviations are on account of other factors (for example, socio-demographic and cultural characteristics), which are largely country-specific, which affect the insurance business of these specific counties.

**INDIAN SCENARIO (IN DIFFERENT STATES)**

1. The scatter plot of S-curve in the study of Enz (2000) reveals that insurance penetration in India lies well above the point of the estimated S-curve. Accordingly, given the assumptions of model in Enz (2000), it is indicated that the insurance penetration in India is higher than what the S-curve suggests. It is interesting to note that there exist other prominent factors (other than the per capita GDP), which influence the growth of Indian insurance business positively. These factors could be demand driven (such as, socio-demographic characteristics of prospect/policyholders, risk appetite, etc.) or, supply driven (such as, quality of distribution channel, product innovation, etc.) or combination of both. While the presence of other factors (other than per capita GDP) is evident in


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case of India, it is expected that these would vary across various states and union territories of India. Treating these states and union territories as independent economies, the insurance penetration as well as insurance density of individual states and union territories can be computed using their respective Premium underwritten, GDP and Population.

## DATA DESCRIPTIONS AND LIMITATIONS

The state-wise computed data of insurance penetration and insurance density is provided. It has been computed annually for the period 2006-07 to 2011-12. The premium figures pertain only to the individual new business first year premium of life insurance.

The insurance penetration stands at 0.78 per cent in 2011-12, while the insurance penetration of total life insurance is 3.47 per cent. The insurance penetration of total life insurance penetration is 3.40 per cent in 2011-12 as per the Swiss Re estimates.

The state-wise data on Gross Domestic Product and per capita Net Domestic Product have been taken from the Central Statistical Organization (CSO). While CSO publishes both the Gross Domestic Product (GDP) and Net Domestic Product (NDP) for various states/UTs, it publishes only Per Capita Net Domestic Product and not the Per Capita Gross Domestic Product. In accordance with the definition of the insurance penetration, the GDP is used for the computation of insurance penetration of various states and union territories. Further, it is taken at the current prices in order to be compatible with the premium figures.

For the scatter plot between insurance penetration and the per capita GDP, the per capita NDP (at current prices) is used, as the per capita GDP is not available. Although, the per capita GDP can be computed by the formula [per capita GDP = (per capita NDP) * (GDP) / NDP] for various states / UTs, the same is not applied and rather the per capita NDP, as available directly, is used as a proxy for the per capita GDP. It may be mentioned that the per capita NDP for majority of states (including All India figure) lies between the range of 85 to 90 per cent of the per capita GDP consistently. Accordingly, by taking the per capita NDP for the scatter plot, the purpose of examining the nature of relationship between the insurance penetration and per capita GDP is well served.

The state-wise data on population is available through Census 2001 and Census 2011. These are used to estimate the state wise population data for various years (2006-07 to 2011-12) using the Compound Average Growth Rate (CAGR) of the respective states and union territories with application of simple interpolations.

India is a large country with 35 states/UTs with varying levels of per capita GDP, insurance penetration and insurance density. The per capita NDP of India stood at 60,972 in 2011-12. The same, however, varied significantly across the states and UTs ranging from a low of `24,681 (for Bihar) to a high of 1,92,652 (for Goa) and 1,75,812 (for Delhi). In the present context, 3 UTs viz. Dadra & Nagra Haveli, Daman & Diu and Lakshadweep have not been considered because of their meagre figures.

## APPRAISAL OF INDIAN INSURANCE MARKET

MARKET SHARE OF LIFE INSURERS

MARKET SHARE : LIFE INSURERS

| Insurer | 2010-11 | 2011-12 |
|---|---|---|
| | **Regular Premium** | |
| LIC | 56.71 | 64.58 |
| Private Sector | 43.29 | 35.42 |
| **Total** | **100.00** | **100.00** |
| | **Single Premium** | |
| LIC | 81.26 | 80.58 |
| Private Sector | 18.74 | 19.42 |
| **Total** | **100.00** | **100.00** |
| | **First Year Premium** | |
| LIC | 68.84 | 71.85 |
| Private Sector | 31.16 | 28.15 |
| **Total** | **100.00** | **100.00** |
| | **Renewal Premium** | |
| LIC | 70.48 | 69.91 |
| Private Sector | 29.52 | 30.09 |
| **Total** | **100.00** | **100.00** |
| | **Total Premium** | |
| LIC | 69.77 | 70.68 |
| Private Sector | 30.23 | 29.32 |
| **Total** | **100.00** | **100.00** |

NUMBER OF LIFE INSURANCE OFFICES*
(As on 31st March)

| Insurer | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Private | 3072 | 6391 | 8785 | 8768 | 8175 | 7712 |
| LIC | 2301 | 2522 | 3030 | 3250 | 3371 | 3455 |
| **Industry** | **5373** | **8913** | **11815** | **12018** | **11546** | **11167** |

## V. CONCLUSION

1. In India, limit of 26% in foreign insurance shareholding has not arrested development of joint ventures with insurers of good reputation in global market. Global financial scenario is highly volatile with all socio economic models ranging from Corporate Capitalist Democracy of USA to Liberalized Communist model of China. In this scenario, we should protect our newly restructured insurance market from aggressive assaults from financially powerful groups.
2. Investment regulations for insurers are liberalized to a reasonable extent keeping adequate controls on the exposure of insurer's fund to the unapproved investment in general stock market. But politically oriented investment, if they are taking place under pressure may cause problems for PSUs.
3. In the Insurance business, the new players are handicapped due to lack of data. The premium depends on the data of risk frequency of car accidents, burglary, fire or death. The new insurers are selling fresh policies that promise to challenge some of the basic paradigms of the state owned insurance monopoly. There is a tendency to target the business of existing companies rather than expanding the market by offering better service or other advantages.
4. New insurers can profitably focus on the retail segment, especially in general insurance. At present personal insurance including health, householders, shopkeepers, accident and professional indemnity coverage constitute 15% of Indian General Insurance premium. New entrants can enhance this figure.
5. Life Insurance potential can be examined by Insurers in details from three angles i.e. in terms of insurable population, savings and consumption expenditure. In India, less than 30% of total insurable populations have been insured. Joint efforts need to be made by all insurers to extend the coverage. Besides a wide range of product, there is need to focus on Single Premium, Retirement and pension plan, Health insurance, Children's plan. 46% of total household savings are in guaranteed return plan like NSC, PPF etc. There is need to convert to LI plans with regard to protection element, long term capital appreciation and dual tax benefits at investment and maturity. Less than 50% of total policies sold are in conventional plans; product mix is a good challenge.
6. Providing insurance cover to lower strata of society through various schemes, micro insurance need urgent attention.
7. E-Commerce and market conducts are two important areas which will strengthen the relationship between companies, consumers and regulators.
8. In most of the countries, Insurance industries have not been allowed to operate in a free and competitive environment and are saddled with avoidable restrictions. The market forces should be allowed to operate and determine as to which are the best products and optimum price in the interest of the consumers. Similarly most of the decisions relating to investment of funds, marketing of products, placement of reinsurance business should be left to marketing forces. The objective behind regulations is to ensure financial strength of the companies so that the interest of the policy holders are protected, the objective could efficiently be achieved through macro level policies and management. These companies may also be encouraged to observe self discipline and code of conduct. For instance, strict compliance to maintain solvency margin will itself ensure healthy financial strength. The method of disclosure norms may be extensively used and enforced. The

objective of protecting the interest of the consumers may well be achieved through these macro management policies without any need to resort to regulate micro level activities of the companies.

9. There is no doubt at all that the Govt. monopoly over the insurance business had to end. There is crying need for better service more innovation and a comprehensive insurance cover. The obvious changes in the insurance markets are there for all to see new brands, new products, fresh advertising, and smart agents- all adding up to the excitement. Innovation of products, services, speed and adoption of technology and professionalism and above all operation cost (management+procuration cost) will decide the future fate of insurance industry.

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