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Growth Trend of Non-Life Insurance Premium Income in India

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***Abstract:** Insurance is a form of risk management which is used primarily to hedge against the risk of a contingent, uncertain loss. It occupies an important place in the complex modern world since risk, which can be insured, has increased enormously in every walk of life. This has led to growth in the insurance business and evolution of various types of insurance covers. The insurance sector acts as a mobilizer of savings and a financial intermediary and is also a promoter of investment activities. It can play a significant role in the economic development of a country, while economic development itself can facilitate the growth of the insurance sector. The importance of insurance is unquestionable in modern economies as it serves a broad public interest and is vital to individuals' security. The non-life insurance industry underwrote total direct premium of Rs.96379 crore in India for the year 2015-16 as against Rs.84686 crore in 2014-15, registering a growth rate of 13.81 per cent as against 9.20 per cent growth rate recorded in the previous year. The public sector insurers exhibited growth in 2015-16 at 12.08 per cent; over the previous year's growth rate of 10.24 per cent. The private general insurers registered a growth rate of 13.12 per cent, against 9.62 per cent growth rate during the previous year.*

***Keywords:** Density, Insurance, Insurance Scenario, Penetration, Premium, and Risk.*

I. INTRODUCTION

Insurance is a means by which the problem of risk in business or life of an individual person is covered. The two main classes of insurance are: (i) general insurance which covers all forms of insurance other than life and is usually written on an annual basis, and (ii) life insurance which is generally on a long-term basis against risk of death. As a part of the Financial Sector Reforms, a Committee on Reforms in Insurance Sector (CRIS), headed by Shri R.N. Malhotra, former Governor of RBI, was constituted in 1993. The main thrust of the Committees' recommendations were – open up the insurance sector, improve the service standards of Indian insurance majors, and extend insurance coverage to a larger section of the Indian population to inject a greater degree of competition.

The Insurance Regulatory Development Authority (IRDA) Bill was passed in both the Houses of Parliament in the year 1999 and IRDA came into existence as a Regulator for the Insurance business in India. The Act also provides protection to the interests of holder of insurance policy and aim to regulate, promote and ensure orderly growth of the insurance industry. It also seeks to amend the Life Insurance Act, 1956; General Insurance Business (Nationalization) Act, 1972 and consequential provisions in the Insurance Act, 1938 with a view to open up the Indian Insurance industry to the private sector for further expansion of insurance business and to realize the untapped potential in the Indian insurance market. In order to provide better insurance coverage to citizens and also to augment the flow of long-term resources for financing infrastructure, the Insurance Regulatory and Development Authority (IRDA) was constituted with effect from 19th April, 2000. The Reserve Bank of India has also issued guidelines for the entry of NBFCs and Banks into the insurance business in May 2000 and August 2000, respectively.

II. ENTRY OF INSURANCE IN INDIA

The business of life insurance in its existing form entered into India from the United Kingdom (UK) with the establishment of Oriental Life Insurance Company (to British firm) in Calcutta in 1818 and followed by Bombay Life Assurance Company in 1823, the Madras Equitable Life Insurance Society in 1829 and Oriental Government Security Life Assurance Company in 1874. Prior to 1871 Indian lives were treated as sub-standard and charged an extra premium of 15 per cent to 20 per cent. Bombay Mutual Life Assurance Society, an Indian insurer which came into existence in 1871, was the first to cover Indian lives at normal rates.

General Insurance would appear to have developed with the industrial revolution in the West and the consequent growth of seafaring trade and commerce in the 17th Century. It came to India from UK. In India, the General Insurance Business was transacted by British and other foreign insurance companies through their agencies. The first general insurance company, viz., Triton Insurance Company Ltd., was established in Calcutta in 1850 whose shares were held mainly by the British. In pursuance of the Nationalization Act, the General Insurance Corporation of India (GIC) was incorporated as a private company under the Companies Act on November 22, 1972 and subsequently it was registered on January 1, 1973 under the Insurance Act, 1938 to carry on all types of General Insurance business. The Government of India subscribed to the capital of GIC and in turn the GIC subscribed to the capital of four subsidiary companies.

General Insurance Corporation (GIC), which was the holding company of the four public sector general insurance companies, has since been delinked from the latter and has been approved as the "Indian Reinsurer" since 3rd November 2000. The share capital of GIC and that of the four companies are held by the Government of India. All the five entities are government companies registered under the Companies Act, 1956 and General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts enabling insurance sector to provide better insurance cover to citizens to protect the interest of policy holders and also to augment the flow of long-term sources of financing structure to promote, regulate, and ensure orderly growth of the insurance industry.

Depending on the need of the situation, the Indian insurance industry has been monitored by the Government, nationalized and then de-nationalized and this is how it happened is given below in the following paragraphs.

Life insurance business was nationalized on 1st September 1956 and the Life Insurance Corporation of India (LIC) was formed. There were 170 companies and 75 provident fund societies doing life insurance business in India at that time. From 1956 to 1999, the LIC held the sole right to do life insurance business in India. With the passing of General Insurance Business Nationalization Act (GIBNA) in 1972, the non-life insurance business was also nationalized and the General Insurance Corporation of India (GIC) and its four subsidiaries were set up. At that point of time, 106 insurers in India doing non-life insurance business were merged with the formation four subsidiaries of the GIC of India.

In 1993 the Malhotra Committee was setup to explore and recommend changes for development of the industry including the reintroduction of an element of competition in the form of entry of private players. The Committee submitted its report in 1994. In 1997 the Insurance Regulatory Authority (IRA) was established. The passing of the Insurance Regulatory and Development Act 1999 led to the formation of Insurance Regulatory and Development Authority (IRDA) in April 2000 as a statutory regulatory body 'to protect the interests of policy holders and regulate promote and ensure orderly growth of the insurance industry'. The GIC was converted into a national re-insurer and its four subsidiaries were restructured as independent companies. In December, 2000 the Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002. These are – National Insurance Company Limited; The Oriental Insurance Company Limited; The New India Assurance Company Limited; and United India Insurance Company Limited.

As at March 2016, there are 24 insurance companies registered as 'Life Insurance' companies. There are 28 insurance companies registered as 'General Insurance', of this five are standalone health insurance companies. Rest of the companies handle all types of general insurance business. Agriculture Insurance Company of India Limited is a specialized insurer for risk related to crop insurance/rural insurance. Export Credit and Guarantee Corporation of India, is a specialized insurer for risks related to export credit.

III. NEED OF THE STUDY

The importance of insurance is unquestionable in modern economies as it serves a broad public interest and is vital to individuals' security. Advocacy of insurance and risk issues is an important tool that complements the insurance regulatory and supervisory framework. During the year 2015-16, the share of life insurance business in India was 79 per cent while that of non-life insurance business was at 21 per cent. The non-life insurance industry underwrote total direct premium of Rs.96379 crore in India for the year 2015-16 as against Rs.84686 crore in 2014-15, registering a growth rate of 13.81 per cent as against 9.20 per cent growth rate recorded in the previous year. The public sector insurers exhibited growth in 2015-16 at 12.08 per cent; over the previous year's growth rate of 10.24 per cent. The private general insurers registered a growth rate of 13.12 per cent, against 9.62 per cent growth rate during the previous year. Private insurers have introduced many innovative products and offer incentives on policies in order to woo consumers. The market share of private insurers has increased steadily on the basis of total premium from 14.25 per cent in 2005–06 to 27.39 per cent in 2015-16. Hence, an attempt about the growth trend of non-life insurance premium income in India is made.

IV. REVIEW OF LITERATURE

Venkatesh Babu, S. (2012) in his article discusses the present scenario of insurance industry, the future developing channels and the perceptions and expectations of end users toward insurance industry. Malpractices became rampant as on every corner new 'Insurance Shops' were opened. With new insurance company coming in India, increase in awareness about insurance in India and good marketing and advertising campaigns carried out by the marketers will give rise and will grow the insurance market in future. Subir Sen (2012) in his research paper pointed out the product mix of general insurers, Motor Insurance continues to dominate; following this, Health Insurance comes in next order. Regarding the product mix of life insurers, ULIPs sales are dominating even after September 2010 regulations. The solvency ratio is set at 1.5 for all insurers and the author also indicated the three general insurers who failed to comply during 2009-10 and the IRDA penalized the defaulting insurers. The National Council of Applied Economic Research (2011) has made a Pan India Survey about awareness levels about insurance both amongst the uninsured and insured population during March-August, 2010 on behalf of the Insurance Regulatory and Development Authority (IRDA). It analyzed the awareness levels of the insured population regarding their rights under the Act, and the uninsured regarding need for insurance, types of insurance available, insurance interest, benefits of insurance, and benefits of ULIP investment. Mita Choudhury and R. Srinivasan (2011), in his report focus on the insurance schemes being implemented by the Central Government for the vulnerable sections of the society. It provides an overview of the nature of schemes and their basic features, analyzes aspects of their performance and the factors affecting them, highlights expenditure commitment of Government of India on these schemes, and discusses issues related to the design and implementation of these schemes. Rao, G.V. (2007) in his paper pointed out the technology, competition and observed that consumers have transformed the way the insurance business transactions are now performed determine how the consumers would like them to be changed. He also stated that the customer is the powerful change agent of the market that would call the shots to shape the future of the insurance market. Auit R. Belsare (2005) in his study "Product Development in General Insurance – A Look at the Indian Market" explained that the product life cycle can be slightly modified if somewhere during the maturity stage product innovation takes place and it is repositioned after making improvements in the product. Sanjeev Jha and Saju George (2005) in their study "Reaching the Janata – Micro Economic Approach to Boost Insurance Penetration" analyzed that insurance has moved up in the public consciousness. However, in the pecking order, financial services awareness would be highest for hanging, life insurance, mutual funds, capital markets and non-life insurance. Pradeep Kansal (2004), in his study titled "Transformation of Insurance in India" explained that the foreign investors are finding Indian market more attractive because even a small share of a growing market looks lucrative. He concluded that in this fast developing scenario it will not be enough if companies have the futuristic strategies. Implementation of the strategies and effectively adapting them to ongoing changes can spell success.

V. Objectives of the Study

The main objectives of the study are –

1. To measure the insurance penetration and density in India.
2. To analyze the growth percentage of gross direct non-life premium income in India

VI. Methodology

Secondary data is mainly focused for this research paper. The data have been gathered from the websites, Insurance Corporation, books, and journals.

VII. Analysis and Interpretation

Growth percentage and annual growth rate have been computed for analysis. Further compound growth rate is also calculated for the purpose of analysis.

A. Insurance Penetration and Density

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). During the first decade of insurance sector liberalization, the sector has reported consistent increase in insurance penetration from 2.71 per cent in 2001 to 5.20 per cent in 2009. Since then, the level of penetration was declining. However, there was slight increase in 2015 reaching 3.44 percent compared to 3.3 percent in 2014. This can be evidenced from Table I.

TABLE I Insurance Penetration and Density in India

Year	Life		Non-Life		Total	
	Density (US $)	Penetration (%)	Density (US $)	Penetration (%)	Density (US $)	Penetration (%)
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
2012	42.7	3.17	10.5	0.78	53.2	3.96
2013	41.0	3.10	11.0	0.80	52.0	3.90
2014	44.0	2.60	11.0	0.70	55.0	3.30
2015	43.2	2.72	11.5	0.72	54.7	3.44

Source: Annual Report 2015-16, IRDA, p.6.

It is noted from Table I that the insurance density of life insurance business had gone up from US $ 9.1 in 2001 to the peak at US $ 55.7 in 2010. During 2015, the level of life insurance density was US $ 43.2. Similarly, the life insurance penetration surged from 2.15 per cent in 2001 to 4.60 percent in 2009. Since then, it has exhibited a declining trend. However, there was a slight increase 2015 reaching 2.72 per cent in 2015 when compared to 2.6 per cent in 2014. Over the last 15 years, the penetration of non-life insurance sector in the country remained steady in the range of 0.5-0.8 per cent. However, its density has gone up from US $ 2.4 in 2001 to US $ 11.5 in 2015.

B. World Insurance Scenario

According to the 'World Insurance in 2015' report published by reinsurance major, Swiss Re, the re/insurance industry faced another year of moderate global economic growth in 2015. The global real gross domestic product (GDP) grew by 2.5 per cent. As per the report, the real global direct life and non-life insurance premiums written grew by 3.8 per cent in 2015, up from 3.5 per cent in previous year. The following Table II shows the total real premium growth rate in 2015.

TABLE II Total Real Premium Growth Rate in 2015

Regions/Countries	Life (in %)	Non-Life (in %)	Total (in %)
Advanced Countries	2.5	2.6	2.5
Emerging Markets	12.0	7.8	9.8
Asia	7.8	9.2	8.2
India	7.8	8.1	7.9
World	4.0	3.6	3.8

Source: Annual Report 2015-16, IRDA, p.4.

It is observed from the Table II that the global life premium growth slowed to 4 per cent from a 4.3 per cent gain in 2014. In advanced markets life premiums grew 2.5 per cent, down from 3.8 per cent growth the previous year. In the emerging markets, overall life premium growth doubled to near 12 per cent. Global non-life premium growth improved to 3.6 per cent in 2015 from 2.4 per cent in 2014. The advanced markets non-life premiums grew 2.6 per cent up from 1.1 per cent growth the previous year. The Emerging markets continued their robust premium growth trend (+7.8%) in 2015 though showed lower growth (+ 8.6%) than 2014.

C. Growth Trend of Non-Life Premium Income in India

The public sector insurers exhibited growth in 2015-16 at 12.08 per cent; over the previous year's growth rate of 10.24 per cent. The private general insurers registered a growth rate of 13.12 per cent, against 9.62 per cent growth rate during the previous year. The growth percentage of gross direct non-life premium income in India from 2004-05 to 2015-16 is shown in the following Table III.

TABLE III Growth Percentage of Gross Direct Non-Life Premium Income in India

Year	Public Sector (Rs. in Crore)	Growth %	Private Sector (Rs. in Crore)	Growth %	Total (Rs. in Crore)	Growth %
2004-05	13973	-	3508	-	17481	-
2005-06	14997	7.33	5362	52.85	20359	16.46
2006-07	16259	8.42	8647	61.26	24906	22.33
2007-08	16832	3.52	10992	27.12	27824	11.72
2008-09	18031	7.12	12321	12.09	30352	9.09
2009-10	20643	14.49	13977	13.44	34620	14.06
2010-11	25152	21.84	17425	24.67	42577	22.98
2011-12	30561	21.50	22315	28.07	52876	24.19
2012-13	35022	14.60	27951	25.25	62973	19.10
2013-14	38600	10.21	32010	14.52	70610	12.13
2014-15	42551	10.24	35090	9.62	77641	9.96
2015-16	47691	12.08	39694	13.12	87385	12.55

Note: Growth percentage indicates the growth over previous year.
Source: Annual Reports of IRDA compiled from 2004-05 to 2015-16.

It is inferred from Table III that over a period of 12 years, higher growth rate is found in the year 2010-11 for the public sector (i.e. 21.84%) and for the private sector, the year 2006-07 shows a highest percentage i.e. 61.26. It is also seen from the Table 2.2 that there is significant growth both in public and private sectors during the year 2010-11 while comparing with previous year of 2009-10.

VIII. FINDINGS

It is inferred from the study that the insurance sector has reported consistent increase in insurance penetration from 2.71 per cent in 2001 to 5.20 per cent in 2009. Since then, the level of penetration was declining. However, there was slight increase in 2015 reaching 3.44 percent compared to 3.3 percent in 2014. Regarding insurance density, it increased to 54.7 US $ in 2015 from 11.5 US $ in 2001. It is also observed from the study that the real global direct life and non-life insurance premiums written grew by 3.8 per cent in 2015, up from 3.5 per cent in 2014. The public sector insurers exhibited growth in 2015-16 at 12.08 per cent and the private general insurers registered a growth rate of 13.12 per cent.

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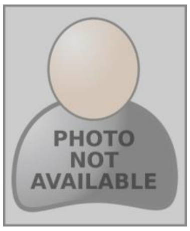
AUTHOR(S) PROFILE



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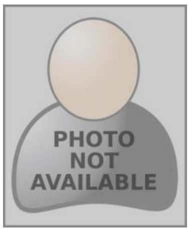

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