

INDIAN INSURANCE SECTOR: AN OVERVIEW

*AMIT RANJAN

*Research Scholar, L.N. Mithila University, Darbhanga

ABSTRACT

Insurance in India refers to the market for insurance in India which covers both the public and private sector organisations. It is listed in the Constitution of India in the Seventh Schedule as a Union List subject, meaning it can only be legislated by the Central Government only. The insurance sector has gone through a number of phases by allowing private companies to solicit insurance and also allowing foreign direct investment. India allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%, which was increased to 49% in 2014. Since the privatisation in 2001, the largest life-insurance company in India, Life Insurance Corporation of India has seen its market share slowly slipping to private giants like HDFC Life, ICICI Prudential Life Insurance and SBI Life Insurance Company. Insurance in this current form has its history dating back to 1818, when Oriental Life Insurance Company^[2] was started by Anita Bhavsar in Kolkata to cater to the needs of European community. The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians with higher premiums being charged for the latter. In 1870, Bombay Mutual Life Assurance Society became the first Indian insurer. At the dawn of the twentieth century, many insurance companies were founded. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were passed to regulate the insurance business. The Life Insurance Companies Act, 1912 made it necessary that the premium-rate tables and periodical valuations of companies should be certified by an actuary. However, the disparity still existed as discrimination between Indian and foreign companies. The oldest existing insurance company in India is the National Insurance Company, which was founded in 1906, and is still in business. This paper is a modest attempt to study the conceptual overview of Indian Insurance company.

Key Words: Insurance, Financial services, Reinsurance.

INTRODUCTION

The insurance industry is an integral part of the financial services industry and profound changes have been taking place in this sector in India. This is because a well-developed and properly evolved insurance sector is needed for economic development, it not only provides long-term funds need for infrastructural development but also strengthens the risk-taking ability of individual and institutions (**Pandian, 2014**).

According to the 'World Insurance in 2016' report published by reinsurance major, Swiss Re, growth in the global economy was little changed in 2016 form the previous year with real gross domestic product (GDP) up 2.5%.

As per the report, the real global direct life and non-life insurance premiums written grew by 3.1% in 2016, down from 4.3% in previous year. The slowdown was mainly driven by considerable lower growth in advanced markets. Robust premium growth in China supported the emerging market which were otherwise also in slowdown mode.

Global life premium growth slowed to 2.5% to USD 2617 billion (2015: 4.4%). Premiums in advanced markets contracted by 0.5% while they grew rapidly in the emerging economies, driven by China. Emerging market life premiums increased by 17% in 2016, more than double the long-term average, supported by solid performance in emerging Asia. Global non-life premium growth slowed to 3.7% to USD 2115 billion (2015: 7.9%) was mainly driven by China.

Interest rates have been low for close to a decade, and this affected life and non-life insurers' profitability yet again in 2016. Return on equity (ROE) declined in both sectors. In life, moderate premium growth in many markets also dragged on profitability, while the non-life sector was further impacted by lower underwriting results. Both the life and non-life insurance sectors remain well capitalized, however.

Global life premium growth is expected to improve over the next few years, mainly driven by the merging markets. Growth in non-life sector is expected to remain moderate, driven mainly by advanced economies.

Table 2.1: Total Real Premium Growth Rate 2016³

| Regions/Countries | Life | Non-Life | Total |
|-------------------|------------|------------|------------|
| Advanced Markets | -0.5 | 2.3 | 0.7 |
| Emerging markets | 16.9 | 9.6 | 13.5 |
| Asia | 7.4 | 8.9 | 7.9 |
| India | 8.0 | 12.9 | 9.1 |
| World | 2.5 | 3.7 | 3.1 |

(In Percent)

Source: Swiss Re, Sigma No. 3/2017

INDIAN INSURANCE IN THE GLOBAL SCENARIO

Globally, the share of life insurance business in total premium was 55.3 percent. However, the share of life insurance business for India was very high at 77.95 percent while the share of non-life insurance business was small at 22.05 percent.

In life insurance business, India is ranked 10 among the 88 countries, for which data is published by Swiss Re. India's share in global life insurance market was 2.36 percent during 2016. However,

Table 2.2: Insurance Companies Operating in India

LIFE INSURERS

| Public Sector | Private Sector |
|--|--|
| 1. Life Insurance Corporation of India | 1. Aegon Life Insurance Co. Ltd. 2. Aviva Life Insurance Co. India Ltd. 3. Bajaj Allianz Life Insurance Co. Ltd. 4. Bharti AXA Life Insurance Co. Ltd. 5. Birla Sun Life Insurance Co. Ltd. 6. Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd. 7. DHFL Pramerica Life Insurance Co. Ltd. 8. Edleweiss Tokio Life Insurance Co. Ltd. 9. Exide Life Insurance Co. Ltd. 10. Future General India Life Insurance Co. Ltd. 11. HDFC Standard Life Insurance Co. Ltd. 12. ICICI Prudential Life Insurance Co. Ltd. 13. IDBI Federal Life Insurance Co. Ltd. 14. IndiaFirst Life Insurance Co. Ltd. 15. Kotal Mahindra Old Mutual Life Insurance Ltd. |

| | |
|--|---|
| | 16. Max Life Insurance Co. Ltd. 17. PNB Met Life Insurance Co. Ltd. 18. Reliance Nippon Life Insurance Co. Ltd. 19. Sahara India Life Insurance Co. Ltd. 20. SBI Life Insurance Co. Ltd. 21. Sriram Life Insurance Co. Ltd. 22. Star Union Dai-ichi Life Insurance Co. Ltd. 23. TATA AIA Life Insurance Co. Ltd. |
|--|---|

INSURANCE PENETRATION AND DENSITY IN INDIA

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 percent in 2001 to 5.20 in 2009. Since then the level of penetration was declining. However, there was a slight increase in the years 2015 (3.44 percent) and in 2016 (3.49 percent). The level of insurance density reached the maximum of USD 64.4 in the year 2010 from the level of USD 11.5 in 2001. During the year 2016, the insurance density was USD 59.7 (USD 54.7 in 2015).

The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to reach the peak at USD 55.7 in 2010. Since then it has exhibited a declining trend upto the year 2013. During the year 2016, the level of life insurance density was USD 46.5 (USD 44 in 2014 and USD 43.2 in 2015). The life insurance penetration has gone up from 2.15 percent in 2001 to 4.60 percent in 2009. Since then, it has exhibited a declining trend upto the year 2014. There was a slight increase in 2015 reaching 2.72 percent and remained unchanged in 2016.

Over the last 10 years, the penetration of non-life insurance sector in the country remained steady in the range of 0.5-0.8 percent. However, its density has gone up from USD 2.4 in 2001 to USD 13.2 in 2016.

Table 2.4: International Comparison of Insurance Penetration

(In Percent)

| Countries | 2015** | | | 2016** | | |
|------------------------|------------|------------|------------|-------------|-------------|-------------|
| | Total | Life | Non-Life | Total | Life | Non-Life |
| Australia | 5.7 | 3.5 | 2.2 | 6.52 | 2.99 | 3.53 |
| Brazil | 3.9 | 2.1 | 1.8 | 4.04 | 2.28 | 1.76 |
| France | 9.3 | 6.2 | 3.1 | 9.23 | 6.06 | 3.17 |
| Germany | 6.2 | 2.9 | 3.4 | 6.08 | 2.75 | 3.33 |
| Russia | 1.4 | 0.2 | 1.2 | 1.38 | 0.25 | 1.13 |
| South Africa | 14.7 | 12.0 | 2.7 | 14.27 | 11.52 | 2.74 |
| Switzerland | 9.2 | 5.1 | 4.1 | 8.85 | 4.72 | 4.12 |
| United Kingdom | 10.0 | 7.5 | 2.4 | 10.16 | 7.58 | 2.58 |
| United States | 7.3 | 3.1 | 4.2 | 7.31 | 3.02 | 4.29 |
| Asian Countries | | | | | | |
| Hong Kong | 14.8 | 13.3 | 1.5 | 17.6 | 16.2 | 1.41 |
| India # | 3.4 | 2.7 | 0.7 | 3.49 | 2.72 | 0.77 |
| Japan # | 10.8 | 8.3 | 2.6 | 9.51 | 7.15 | 2.37 |
| Malaysia # | 5.1 | 3.4 | 1.7 | 4.77 | 3.15 | 1.62 |
| Pakistan | 0.8 | 0.5 | 0.3 | 0.89 | 0.63 | 0.26 |
| PR China | 3.6 | 2.0 | 1.6 | 4.15 | 2.34 | 1.81 |
| Singapore | 7.3 | 5.6 | 1.7 | 7.15 | 5.48 | 1.67 |
| South Korea# | 11.4 | 7.3 | 4.1 | 12.08 | 7.37 | 4.72 |
| Sri Lanka | 1.2 | 0.5 | 0.7 | 1.12 | 0.52 | 0.6 |
| Taiwan | 19.0 | 15.7 | 3.2 | 19.99 | 16.65 | 3.34 |
| Thailand | 5.5 | 3.7 | 1.8 | 5.42 | 3.72 | 1.7 |
| World | 6.2 | 3.5 | 2.8 | 6.28 | 3.47 | 2.81 |

Source: Swiss Re, Sigma Volumes 3/2016 and 3/2017

*Insurance penetration is measured as ratio of premium (in US\$) to GDP (in US\$)

** Data pertains to the calendar year 2015 and 2016.

#Data relates to financial year 2015-16 to 2016-17

APPRAISAL OF INDIAN INSURANCE MARKET

At the end of March 2017, there were 62 insurers operating in India; of which 24 were life insurance, 23 were general insurers, 6 were health insurers exclusively doing health insurance business and 9 were re-insurers including foreign reinsurers branches and Lloyd's India.

Of the 62 insurers presently in operation, eight are in the public sector and the remaining fifty four are in the public sector. Two specialized insurers, namely ECGC and AIC, one life insurers namely LIC, four in general

insurance and one in reinsurance namely GIC are in public sector. 23 life insurers, 17 general insurers, 6 standalone health insurers and 8 reinsurers including foreign reinsurers branches and Lloyd's India are in private sector.

Table 2.7: Registered Insurers Including Foreign Reinsurers' Branches/Lloyd's India

| Type of Insurer | Public Sector | Private Sector | Total |
|--|---------------|----------------|-----------|
| Life | 1 | 23 | 24 |
| General | 6 | 17 | 23 |
| Health | 0 | 6 | 6 |
| Re-insurers (Including Foreign Reinsurers Branches/ Llyod's India) | 1 | 8 | 9 |
| Total | 8 | 54 | 62 |

Source: www.irdai.gov.in

CONCLUSION

All life insurance companies were nationalised to form LIC in 1956 to increase penetration and protect policy holders from mismanagement. The non-life insurance business was nationalized to form GIC in 1972. Malhotra Committee recommended opening up the insurable sector to private players. IRDA, LIC and GIC Acts were passed in 1999, making IRDA the statutory regulatory body for insurance and ending the monopoly of LIC and GIC.

Post liberalisation, the insurance industry recorded significant growth, the number of private players increased to 46 in 2016. The industry has been spurred by product innovation, vibrant distribution channels, coupled with targeted publicity and promotional campaign by the insurers. In December 2014, Government approved the ordinance increasing FDI limit in Insurance Sector from 26 percent to 49 percent. This would likely to attract investment of USD 7-8 billion. In 2015, Government introduced Pradhan Mantri Suraksha Bima Yojna and Pradhan Mantri Jeevan Jyoti Bima Yojana. Government introduced Atal Pension Yojana and Health Insurance in 2015.

As Union Budget 2017, new health insurance Scheme under the National Health Protection Scheme has been introduced. Government has also increased the coverage from 30 percent to 40 percent under Pradhan Mantri Fasal Bima Yojan. India's Insurance market continues to be strong. The insurance industry is expected to reach USD 208. Life Insurance Corporation accounted for 72.61 percent of the country's insurance market.

Players in Indian Insurance industry are trying to come up with innovative low cost products to achieve cost advantage. It is estimated that digitisation will reduce 15-20 percent of total cost for life insurance and 20-30 percent for non-life insurance from October 2016, IRDA has mandated having an E-insurance (electronic insurance) account to purchase insurance policies. Kotak Mahindra has announced to buy 26 percent stake owned by its JV partner Old Mutual Plc. In Kotal Mahindra Old Mutual Life Insurance Ltd for US\$ 192.28 million.

Companies are trying to differentiate themselves by providing wide range of products with unique features. For example, New India Assurance launched Farmers' Package Insurance to covering farmer's house, assets, cattle etc. United India launched Workmen Medicare Policy to cover hospitalisation expenses arising out of accidents during and in the course of employment. In March 2017, HDFC Life in collaboration with Haptik, has announced the launch of the country's 1st life insurance chatbot which will help the customer as a financial guide to aid them to choose the most suitable plans befitting their needs. Focus on providing one kind of service help insurance companies in differentiation. For example, SBI is concentrating on individual regular premium products as against single premium and group products. The Insurance Law (Amendment) Bill, was passed in 2015 raises the foreign investment cap in the sector from 26 percent to 49 percent.

New distribution channels like bancassurance, online distribution and NBFCs have widened the reach and reduced costs. Firms have tied up with local NGOs to target lucrative rural markets. In April 2017, IRDA started a web portal-isnp.irda.gov.in- that will allow the insurers to sell and register policies online. This portal is open to intermediaries in insurance business as well. India Post Payments Bank (IPPB) will start selling insurance products and mutual funds of other companies by early 2018 and is to be open only to "non-exclusive" tie-ups.

In the life insurance segment, share of private sector in the total premium increased to 29.6 percent in FY 16 from 2.0 percent in FY03. In the non-life insurance segment, share of private sector increased to 41.2 percent in FY16 from 14.5 percent in FY04. The life insurance sector has witnessed the launch of innovative products such as Unit Linked Insurance Plans (ULIPs) Other traditional products have also been customised to meet specific needs of India consumers. Large insurers continue to expand, focusing on cost rationalisation and aligning business models to realise reported Embedded Value (EV), and generate value from future business rather than focus on present profits

REFERENCES:

1. Pandian, Punithavathy (2014), Financial Services and Markets, Vikas Publishing House Pvt. Ltd. New Delhi, p.165
2. Report on World Insurance in 2016, SWISS Re,
3. SWISS Re, Sigma No. 3/2017.
4. Annual Report 2016-17, The Insurance Regulatory and Development Authority of India, Hyderabad, pp.165.167
5. SWISS Re, Sigma No. 3/2017
6. Ibid
7. Ibid
8. Annual Report 2016-17, Op. cit, p.6
9. SWISS Re, Sigma Volumes 3/2016 and 3/2017
10. Ibid
11. SWISS Re, Sigma, Various Issues
12. Annual Report 2016-17, Op.cit., p.7
13. Ibid
14. www.irdai.gov.in
15. Ibid
16. Annual Report 2016-17, op. cit., p.9
17. Ibid
18. Ibid
19. www.irdai.gov.in
20. Ibid
21. Annual Report 2016-17, op. cit., p.17
22. Ibid
23. Ibid
24. www.irdai.gov.in
25. Ibid
26. Ibid
27. www.irdaidia.org
28. Ibid

29. Annual Report 2016-17, op. cit., p.20
30. Ibid
31. Ibid
32. www.irdai.gov.in
33. Ibid
34. Ibid
35. Ibid
36. Annual Report 2016-17, op. cit., p.60