



AN ANALYSIS OF INDIAN INSURANCE INDUSTRY & MARKET DEVELOPMENT

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Abstract

Future and uncertainty are the two sides of a coin. Insurance is a mechanism to overcome uncertainty and risk. In spite of it, there is a dearth of empirical research in developing countries and analytical studies are limited in number, particularly in developing countries like India, where the insurance penetration and density are very low compared with international levels. Generally financial performance plays an important role not only towards growth of the industry as a whole but also have an important effect on the customer's preference towards Life insurers. The insurance penetration in a country largely depends on the risk awareness among the people and on the level of economic activity of the country. There is ample empirical evidence to vindicate the relationship between the performance of insurance industry and economic development. In India, the growth rate of number of new policies issued and the insurance premium are experiencing a negative trend for the last three years. The industry has an enormous growth possibility in India due to unexploited market and outsized population size. Insurance products are unsought products which people usually do not buy unless and until they are made aware of it. The concept of insurance has drawn the attention of practitioners, academicians as well as that of the common people. The life insurance is basically a societal scheme adopted by educated mass for tackling the incidence of loss of income to families by unanticipated instances. Insurance is a mechanism to overcome uncertainty and risk. The present paper primarily deals with these aspects of insurance industry and a comparative analysis of both private and public sectors of life and non-life insurance industry. Four indicators-Premium incomes, Market Share, New Policies Issued and Claims Settlement Ratio have been used to analyse the performance of Insurance industry. Besides, an overview of share of Indian insurance industry in the global insurance industry and inter-state variations in insurance penetration and density in India have been presented to assess the current status of insurance industry in India.

Keywords: *Life insurance, Financial Performance, Premiums, Market share, Government Initiatives, SWOT Analysis.*

Introduction

Insurance industry plays a vital role in the Indian market. There are altogether 53 insurance companies that are serving both life insurance and general insurance products to the customers countrywide. The life insurance sector recorded a new premium income of Rs. 1.38 trillion in a year, i.e. April 2015 to March 2016. This indicated a dramatic growth rate of 22.5% in the premium income, whereas the general insurance sector centered on two-wheeler insurance policy recorded a 12% growth by receiving a premium income of Rs. 105.25 billion during the year, i.e. April 2016 to March 2017. The life insurance sector offers about 360 million policies, which count to be the largest in the world. Still, it is expected to cross compound annual growth rate of 12 to 15% in the next 5 years. It is expected that the Indian insurance market will quadruple in size over the next 10 years and the life insurance sector is expected to collect more than 160 billion dollar. There are a lot of opportunities in the Indian insurance market. Currently, the general insurance business in the Indian market accounts for more than Rs. 70,000 Crore premiums yearly, and it is growing at a positive rate of 17% every year. Despite being the second highly populous country in the world, Indian insurance market accounts for less than 1.5% of the world's total insurance premium. The insurance industry of India consists of 53 insurance companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India. Other stakeholders in Indian Insurance market include agents, brokers, surveyors and third party administrators servicing health insurance claims. Out of 29 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. No matter the amount of precautionary measures we take, we are never truly able to avert disaster because let's face it - if the Mayans could be wrong about the world ending in 2012, then who are we mere humans to claim to be able to predict the future? The obvious thing left to do then, would be to mitigate the extent of the damage caused by such a catastrophic happening and prepare ourselves for facing a disaster. In other words, it always helps to have a financial cushion to fall back on in the face of adversity. It was this concept of financial security that led to the evolution of the insurance industry all over the world and the developing economy of India is definitely not one to be left out. The idea of pooling resources of many to provide financial cover for some who face adversity has been talked of in the oldest of Indian scriptures and in the Arthashastra, Dharmashastra and the Manusmriti. Over the centuries, it has emerged into a modernised, finer and more organised industry as a whole and this industry happens to be responsible for a large part of the country's economic development and progress. While India proudly stands today boasting of a booming insurance industry with 24 life insurance companies and 28 non-life players, it took a long time for the country to get to this point.



Objective of the Study

Insurance sector play a very significant and vibrant role in the process of financial intermediaries. It constitutes as one of the important pillar of the financial market which create a lot of new opportunities. The study is carried out to know the trends and pattern of life insurance industry in India.

Research Methodology

A research methodology may be defined as a science of methods which will be used for conducting the research. To carry out this study descriptive as well as analytical research design has been used. The study is purely based on secondary data which has been collected from IRDA annual reports, IRDA journals, LIC reports, websites, Insurance Chronicle (ICFAI), publications, journal, books, published works, Internets etc.

Market Size in India

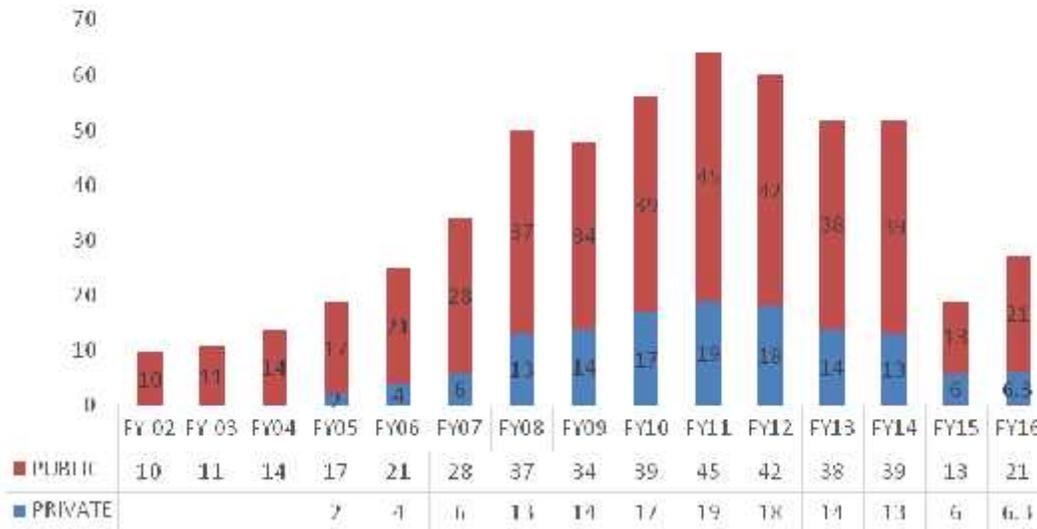
Under the colonial rule of the Great British Empire, the insurance sector was just beginning to peek out from the confines of ignorance when in 1818 Anita Bhavsar of Kolkata founded the Oriental Life Insurance Company for the almighty conquerors of our land - the Britishers. With the emergence of a few more insurance companies to cater to the westerners in our territory, Indians' lives were insured but at much higher premium rates than those for the Britishers. In the early years of its birth, the insurance sector was completely free of the Government control but soon became completely regulated and public. Today, the governing body of our country's insurance industry is the Insurance Regulatory and Development Authority of India which was set up in 1999, the year that private companies entered the industry. Government's policy of insuring the uninsured has gradually pushed insurance penetration in the country and proliferation of insurance schemes are expected to catapult this key ratio beyond 4 per cent mark by the end of this year, reveals the ASSOCHAM latest paper. The number of lives covered under Health Insurance policies during 2015-16 was 36 crore which is approximately 30 per cent of India's total population. During April 2015 to March 2016 period, the life insurance industry recorded a new premium income of Rs 1.38 trillion, indicating a growth rate of 22.5 per cent. The general insurance industry recorded a 12 per cent growth in Gross Direct Premium underwritten in April 2016 at Rs 105.25 billion. The life insurance industry reported 9 per cent increase in overall annual premium equivalent in April-November 2016. In the period, overall annual premium equivalent- a measure to normalise policy premium into the equivalent of regular annual premium- including individual and group business for private players was up 16 per cent to Rs 1,25,563 crore and Life Insurance Corporation up 4 per cent to Rs 1,50,456 crore. India's life insurance sector is the biggest in the world with about 360 million policies which are expected to increase at a Compound Annual Growth Rate of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to five per cent by 2020. The country's insurance market is expected to quadruple in size over the next 10 years from its current size of 60 billion dollar. The general insurance business in India is currently at Rs 78,000 crore premium per annum industry and is growing at a healthy rate of 17 per cent. The Indian insurance market is a huge business opportunity waiting to be harnessed. India currently accounts for less than 1.5 per cent of the world's total insurance premiums and about 2 per cent of the world's life insurance premiums despite being the second most populous nation. The country is the fifteenth largest insurance market in the world in terms of premium volume, and has the potential to grow exponentially in the coming years.

Growth of Market Share of Private Insurance Companies in India

Private Sector – Life/Non-Life Companies	2004 (in %)	2014 (in %)
Life Insurance Companies	4.7	24.6
Non-Life Insurance Companies	9.6	45.3

The life insurance market grew from 10.5 billion dollar in FY02 to 27.5 billion dollar in FY16 over FY02–FY16, life insurance premiums expanded at a CAGR of 7.5 per cent. The life insurance industry has the potential to grow 2-2.5 times by 2020 in spite of multiple challenges supported by long-term trends and fundamentals underlying household savings.

Growth in insurance premiums
in US dollar billion



During the first half of FY 2016-17 the Life Insurance industry reported a 20 per cent growth in overall annualised premium equivalent with the help of both private players and Life Insurance Corporation. Government has approved the ordinance to increase Foreign Direct Investment (FDI) limit in Insurance sector from 26 per cent to 49 per cent which would further help attract investments in the sector. The Indian insurance industry is expected to grow to 280 billion dollar by FY2020, owing to the solid economic growth and higher personal disposable incomes in the country. There are 24 life insurance and 28 non-life insurance companies in the Indian market who compete on price and services to attract customers. Going forward, increasing life expectancy, favourable savings and greater employment in the private sector is expected to fuel demand for pension plans. The Insurance Regulatory and Development Authority (IRDA) recently allowed life insurance companies that have completed 10 years of operations to raise capital through Initial Public Offerings (IPOs). Post liberalisation, the insurance industry in India has recorded significant growth. Likewise, strong growth in the automotive industry over the next decade would be a key driver for the motor insurance market. Insurance products are also covered under the Exempt-Exempt-Exempt (EEE) method of taxation, which translates to an effective tax benefit of approximately 30 per cent on select investments. The industry has been spurred by product innovation, vibrant distribution channels, coupled with targeted publicity and promotional campaigns by the insurers.

Development in Indian Insurance Market

New York Life Insurance Company, the largest life insurance company in the US, has invested INR 121 crore in Max Ventures and Industries Ltd for a 22.52 per cent stake, which will be used by Max for investing in new focus areas of education and real estate. Max Life Insurance Co Ltd and HDFC Life Insurance Co Ltd have signed a merger agreement, which is expected to create India's largest private sector life insurance company once the transaction is completed. Aviva Plc, the UK-based Insurance Company, has acquired an additional 23 per cent stake in Aviva Life Insurance Company India from the joint venture partner Dabur Invest Corporation for Rs 940 crore, thereby increasing their stake to 49 per cent in the company. Insurance firm AIA Group Ltd has decided to increase its stake in Tata AIA Life Insurance Co Ltd, a joint venture owned by Tata Sons Ltd and AIA Group from 26 per cent to 49 per cent. Canada-based Sun Life Financial Inc plans to increase its stake from 26 per cent to 49 per cent in Birla Sun Life Insurance Co Ltd, a joint venture with Aditya Birla Nuvo Ltd, through buying of shares worth Rs 1,664 crore. Nippon Life Insurance, Japan's second largest life insurance company, has signed definitive agreements to invest Rs 2,265 crore in order to increase its stake in Reliance Life Insurance from 26 per cent to 49 per cent. Bennett Coleman and Co. Ltd, the media conglomerate with multiple publications in several languages across India, is set to buy Religare Enterprises Ltd's entire 44 per cent stake in life insurance joint venture AegonReligare Life Insurance Co. Ltd. The foreign partner Aegon is set to increase its stake in the joint venture from 26 per cent to 49 per cent, following government's reform measure allowing the increase in stake holding by foreign companies in the insurance sector. State Bank of India has announced that BNP Paribas Cardiff is keen to increase its stake in SBI Life Insurance from 26 per cent to 36 per cent. Once the foreign joint venture partner increases its stake to 36 per cent, SBI's stake in SBI Life will get diluted to 64 per cent.

The SWOT Analysis – Strengths, Weaknesses, Opportunities, Threats

Also, in spite of being the largest in the life-insurance sector, the industry lags behind when it comes to the non-life insurance sector with a very minor percentage of the entire Indian population actually insured for their health and lives. The political environment of the country also makes adaptation to change in the industry difficult, leading to stagnation of the insurance sector in the nation. Also, there is a large pool of wealthy Indians which is getting larger by the year, leading to higher investments in insurance. Also, the market for insurance hasn't been growing as rapidly as expected due to the density of life being low in the country. As it is with everything else in the world, the Indian Insurance industry too has its share of positives and negatives. We are definitely not a country that can be nonchalantly swept off to the side-lines and comfortably ignored. The rural poor, constituting more than half of the nation's population still don't have the monetary means to invest in the luxury of insurance. State-governed insurers dominate the market rampantly and drown the industry into a web of bureaucratic red-tapism that is hard to break out of. After all, the more the merrier and definitely more risky. It is an undeniable fact that as one of the fastest developing nations of the world, our rapidly emerging economy reflects great long-term potential and promise.

Government of India's Initiatives

IRDAI recently announced that public sector insurance companies can offer up to 10% discount on the premium of general insurance policies and 8% discount for premiums of new life policies offered by LIC. Service tax on the business of life insurance, offered by means of the annuity, based on National Pension Scheme, which is managed by Pension Fund and Regulatory Development of India, managed being exempted, with effect from April 2016. The Indian Regulatory and Development Authority of India (IRDAI) has created two committees to explore and suggest ideas to promote e-commerce in the insurance sector in order to raise the insurance penetration and get the financial inclusion. IRDA has formulated a regulation, which imposes obligations on insurance providers towards offering insurance coverage to the rural and financially weaker sections of the societies in India. Both the plans offer basic coverage at nominal premium rates and can be easily brought through various government and private insurance firms. Please note that this discount is available only if the insurance policy bought online through customer portals. The government of India has also designed two insurance schemes in the year 2015-16. Service tax on particular premium annuity policies has been decreased from 3. Pradhan MantriSurakshaBimaYojana, which is a Personal Accident Insurance plan. 4% of the premium paid in some cases.



Insurance Regulatory and Development Authority (IRDA)

Established in 1999 under the IRDA Act Responsible for regulating, promoting and ensuring orderly growth of the insurance and re-insurance business in India. Post liberalisation, the insurance industry recorded significant growth; the number of private players increased to 44 in 2012. The industry has been spurred by product innovation, vibrant distribution channels, coupled with targeted publicity and promotional campaigns by the insurers. In December 2014, Government approved the ordinance increasing FDI limit in Insurance sector from 26% to 49%. This would likely to attract investment of USD7-8 billion In 2015, Government introduced Pradhan MantriSurakshaBimaYojna and Pradhan MantriJeevanJyotiBimaYojana. Government introduced Atal Pension Yojana and Health insurance in 2015. As per Union Budget 2016-17, new health insurance scheme under the National Health Protection Scheme has been introduced. Source: IRDA TechSciResearch



Hope this write-up has served you to understand the current trends in the Indian insurance industry. The life insurance sector is expected to comprise 35% of the total savings from 26% in the year 2009-10 by the end of this decade. It is quite evident that the future of the life insurance industry looks promising with various changes in its way of working. The Budget has made provisions for paying huge subsidies in the premiums of Pradhan Mantri Fasal Bima Yojana and the number of beneficiaries will increase to 50 per cent in the next two years from the present level of 20 per cent. As part of PMFBY, Rs 9,000 crore has been allocated for crop insurance in 2017-18. Life insurers will be able to sell them insurance products, to further reduce their tax burden in future. As many of these people were understating their incomes, they were not able to get adequate insurance cover. Demand for insurance products may rise as people's preference shifts from formal investment products post demonetisation. The Government of India has taken a number of initiatives to boost the insurance industry. Some of them are as follows: The Union Cabinet has approved the public listing of five Government-owned general insurance companies and reducing the Government's stake to 75 per cent from 100 per cent, which is expected to bring higher levels of transparency and accountability, and enable the companies to raise resources from the capital market to meet their fund requirements. The Insurance Regulatory and Development Authority of India plans to issue redesigned initial public offering guidelines for insurance companies in India, which are to looking to divest equity through the IPO route. IRDAI has allowed insurers to invest up to 10 per cent in additional tier 1 bonds that are issued by banks to augment their tier 1 capital, in order to expand the pool of eligible investors for the banks. IRDAI has formed two committees to explore and suggest ways to promote e-commerce in the sector in order to increase insurance penetration and bring financial inclusion. IRDAI has formulated a draft regulation, IRDAI Regulations, 2015, in pursuance of the amendments brought about under section 32 B of the Insurance Laws Act, 2015. These regulations impose obligations on insurers towards providing insurance cover to the rural and economically weaker sections of the population. The Government of Assam has launched the Atal-Amrit Abhiyan health insurance scheme, which would offer comprehensive coverage for six disease groups to below-poverty line and above-poverty line families, with annual income below Rs 500,000. The Uttar Pradesh government has launched a first of its kind banking and insurance services helpline for farmers where individuals can lodge their complaints on a toll free number. The select committee of the Rajya Sabha gave its approval to increase stake of foreign investors to 49 per cent equity investment in insurance companies. Government of India has launched an insurance pool to the tune of Rs 1,500 crore (US\$ 220.08 million) which is mandatory under the Civil Liability for Nuclear Damage Act (CLND) in a bid to offset financial burden of foreign nuclear suppliers. Foreign Investment Promotion Board (FIPB) has cleared 15 Foreign Direct Investment (FDI) proposals including large investments in the insurance sector by Nippon Life Insurance, AIA International, Sun Life and Aviva Life leading to a cumulative investment of Rs 7,262 crore (US\$ 1.09 billion).

Conclusion

The changing political scenario will make things more interesting and shall definitely bring about a positive change for the sector, as will the improving demographic factors, economic conditions of the Indian population and the growing realisation and admittance of the fact that one doesn't have any control over the future. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance. One of the major problems of the Insurance industry is that while the population is increasing at an unimaginable rate, the insurable population of the country remains at an all-time low – a fact that should hopefully change soon with the population insured reaching a high of about 75 crore in the next five years. The hope for the future is that the life insurance sector should increase by a growth rate of about 12-15% in the coming half-decade, by 2020. As per the Sectoral Report by the India Brand Equity Foundation on July 2015, the market size of the country's insurance sector should hopefully jump from the current US\$67 billion (approx). The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. India's insurable population is anticipated to touch 750 million in 2020, with life expectancy reaching 74 years. Furthermore, life insurance is projected to comprise 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10 to about US\$ 350-400 billion in the next five years with the investment in the pension sector of the country crossing US\$ 1 trillion in the coming decade.

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