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INSURANCE INDUSTRY IN INDIA: A STUDY

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ABSTRACT

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 (LIC) 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 (GIC Re). Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims. There are two more special insurers belonging to Public Sector, Namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance.

KEYWORDS*: Insurance Industry, Non-Life Insurers, National Re-Insurer, Brokers, Surveyors.*

Introduction

Insurance is one of the primary risk management devices insurance stands for a mechanism to protect against risk, hazards or dangers to life and property according to sec (2)(11) of the insurance Act. Life insurance Business means "the business of effective contracts upon human life. It includes:

- Any contract where the payment of money is assured upon death or the happening of any contingency dependent upon human life.
- Any contract which is the Subject to the payment of premiums for a term dependent or human life.
- Any contract which is the granting of disability and double or triple indemnity, accidents benefits, the granting on annuities upon human life and the granting of superannuation allowance.

Insurance is a commercial enterprise and major part of the financial Services industry, but individual entities can also self-insure through saving money for possible future losses. In a world, Insurance companies can be categorized into two main divisions which are as follows:

- General Insurance Companies: They provide all types of insurance apart from life insurance.
- Life Insurance Companies: They provide life insurance; pension products and annuities are life insurance companies. Insurance companies are usually identified as stock companies. Insurance is a device for indemnifying an individual against loss and in the recent past due to natural calamities, few insurance companies have suffered financial setback.

History of Indian Insurance Industry

The origin of insurance is probably unknown in India insurance has a deep-rooted history indirect reference to insurance is found in the Rig-Vada. The Rig Vada mentions the term "Yoga-Kshema"- mean well being prosperity and security of people. in 1818 when oriental life insurance company was started by Anita Bhavsar in Kolkata to cater to the needs of European community. In 1870, Bombay mutual life Assurance society became the first Indian insurer. At the dawn of the twentieth country, many insurance companies were founded. In the year 1912 The Life Insurance Companies Act and the provident fund Act

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were passed the Life Insurance Companies Act and the Provident Fund Act was passed to regulate the insurance business. The Government of India issued an Ordinance on 19 January, 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. In 1972 with the General Insurance Business Act was passed by the Indian Parliament, and was effect from 1 January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on 1 January 1973. GIC had four subsidiary companies like, Oriental Insurance Ltd., New India Assurance Company Ltd., National Insurance Company Ltd. and United India Insurance Company.

Current scenario of Indian Insurance Industry

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 (CAGR) 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 US$ 60 billion. During this period, the life insurance market is slated to cross US$ 160 billion. The general insurance business in India is currently at Rs 78,000 crores (US$ 11.44 billion) 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.

Role of Insurance Regulatory Development Authority

In India, IRDA is insurance regulatory, as per the section four of IRDA Act 1999, Insurance regulatory and Development Authority. (IRDA) which was constituted by an act of parliament. National Insurance Academy, Pune is apex insurance capacity builder institute promoted with support from ministry of finance and by LIC, Life and General Insurance Companies. IRDA Key objective of promoting competition, in order to improve customer satisfaction through increased choice and lower premiums, while insuring the financial securities of the insurance market IRDA deregulated the insurance sector and permitted the entry of private companies in to the insurance industry. This made a significant change in the insurance sector in both the products that are offered and also in the services provided to the customers.

Life Insurance Business Performance

Life Insurance Business Performance	2015-16		2014-15	
	Public Sector	**Private Sector**	**Public Sector**	**Private Sector**
Premium Underwritten (Rs in Crores)	266444.21	100499.02	239667.65	88433.49
New Policies Issued (in Lakhs)	205.47	61.92	201.71	57.37
Benefits Paid (Rs in Crores)	141201.05	60565.05	144125	67054
Individual Death Claims (Number of Policies)	761983	114697	755901	121927
Individual Death Claims Amount Paid (Rs in Crores)	9690.17	2946.49	9055.18	2733.49

It is observed that the premium underwritten and new polices issued had increase both public as well as private sector. But in return the benefits paid has decreased in both the sectors. The individual death claim has increased in public sector while it was decreased in private sector. Over all in both the sectors the performance has increased compared to claim underwritten claim paid grievance rebalance.

Non-Life Insurance Business Performance

Non-Life Insurance Business Performance:	2015-16		2014-15	
	Public Sector	**Private Sector**	**Public Sector**	**Private Sector**
Premium Underwritten (Rs in Crors)	47691	39694	42549.48	35090.09
New Policies Issued (in Lakhs)	671.32	549.44	677.82	504.97
Number of Grievances reported during the year	17808	41802	15860	44828
Grievances Resolved During the Year	17718	42493	16105	43318
Grievance Resolved (in percent)	99.49	101.65	101.54	96.63

The premium underwritten has increased in both the sectors while new policies have decreased for public sector and increased sectors they have not tried to resolve the grievance that were respected during the year. Thus overwriting the performance level of both sectors there is below in claim paid and grievances.

Some aspect related to Insurance Industry

Positive Investment Experience

The main source of revenue for insurance companies will be premium from underwriting activities and returns on investment income. Life insurance companies invest revenue in order to generate a profit. Insurers invest in diversified assets but however should be careful and not greedy in investing in riskier asset class as they need to maintain safety and liquidity also. Insurers invest in stocks, bonds, real estate, and a number of other asset classes. Net investment income is deployed as the numerator because it eliminates the expenses associated with creating the investment income. The denominator of the investment income ratio is earned premiums.

We may take written premium as the denominator but it means that the calculation will include premium which is still considered a liability. Earner premium would give us the exam picture. The investment income ratio is deployed in the assessment of an insurance company's overall operating ratio, which is a measurement of the insurer's overall performance. Operating ratio is equal to sum of loss ratio and expense ratio minus the investment income ratio. An operating ratio below 100 indicates that the insurer is generating profit from its operations. Life Insurance companies provide guaranteed products in addition to non-guaranteed.

They will earn or lose, based on the investment experience of the company. A strong investment team with futuristic approach will surely help the company register Investment surplus in the long run. Insurers were allowed to deal with Financial Derivatives only to the extent approved and in accordance with the guidelines issued by the Authority vide Regulation 11 which got included in 2004 in the IRDA (Investment) Regulations, 2000. Subsequently, the Authority circulated comprehensive Guidelines on Fixed Income Derivatives vide Circular no. INV/GLN/008/2004-05 dt.24/08/2004.The said guidelines authorizes Insurers to enter Forward Rate Agreements (FRAs), Interest Rate Swaps (IRS), Exchange Traded Interest Rate Futures (IRF) with a maximum tenure of 1 year to hedge the Interest Rate risk on Investments and the forecasted transactions.

New Distribution Channels

There is a growing need to develop new and cost effective channels for distribution. Both Agency and Banc assurance channels have their own merits and demerits. We need to have multi-channel distribution for optimum utilization of resources. With the advent of technology innovation there is a scope to reduce the cost of acquisition which in turn the benefit can be passed to the customer. IMF (Insurance Marketing Firm) is the new channel for distributing insurance products who work on multi-product platform which is initiated by the regulator. Following are the new channels which come in the forefront for distribution.

- Online/internet gateways
- Direct marketing and Telemarketing
- NGOs and affinity groups
- Insurance Marketing Firms
- Web Aggregators
- Worksite Marketing

Focus on Variable Channel

Insurance companies are focusing on variable channel wherein instead of Sales Managers you would have Chief Agents recruiting agents under them and developing them. These Chief Agents are on variable pay wherein they are paid an ORC on the advisor commission. While the model is not formally approved by the regulator we have 13+ companies practicing this model and generating business through this. This is a big shift from the existing direct channel where the payout is made only once the business is sourced. It is still not a major channel for most of the Insurance Companies since the productivity of Chief Agents is not predictable as most of them are part time. With enhanced productivity from Chief Agents this is surely a game changer.

Improving Risk and Capital Management Skills

Integrated risk and capital management is emerging as a source of competitive advantage in the insurance industry. The days of seeing risk and capital management as purely defensive business processes are nearing an end. Insurers have come to identify enterprise risk management as central to creating and enhancing shareholder value through improved risk-based decision making and capital allocation. Senior executives are according integrated risk and capital management greater importance and attention than ever before, establishing high-level accountability befitting a legitimate tactical function. Risk management deliberations have begun dominating business decisions in such conventional areas as investment/asset strategy, annual business planning, product pricing & reinsurance purchasing. Reinsurance is the most effective way for managing integrated risk. Organizations handle Market Risk, Insurance Risk and operational risk. Companies need to have long pronged strategy to handle these risks.

Variable Employee Cost

Manpower cost is between 40-50% of the overall operating expense which is an alarming trend in the current scenario. We cannot trim the employee strength as it is very much required for distribution build-up. Hence a need to plan employee cost which is a combination of fixed and variable is needed. We need to incentivize employees more on variable which in turn will help us enhance their productivity. This will also reduce the fixed cost which is costing huge for the organization. We can surely have more employees on variable than fixed. And variable is paid basis the business achievement. This is to say that you will add on cost only with business coming in else you will continue to spend the same amount without adding any additional costing.

Conclusion

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 (CAGR) of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to five per cent by 2020. 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.

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