

## **SALIENT FEATURES OF INDIAN INSURANCE SECTOR: AN OVERVIEW**

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Koushalya Agarwal \*

### **ABSTRACT**

*Insurance has evolved as a process of safeguarding the interest of people from loss and uncertainty. It may be described as a social device to reduce or eliminate risk of loss to life and property. Insurance contributes a lot to the general economic growth of the society by provides stability to the functioning of process. Insurance provides a cover against any sudden loss. Insurance generate funds by collecting premium. Thus, insurance plays a crucial role in sustainable growth of an economy. In the post liberalization era, insurance has attracted any private players from different parts of the country to start business India. India as a country has potential for growth of this business. With the upcoming of IRDA in the year 2000, the business in India became more streamlined. Many private life insurance companies (most of them are joint ventures) have emerged significantly in India.*

**KEYWORDS:** *Indian Insurance Sector, Risk of loss to Life, Liberalization, Growth, Economy.*

### **Introduction**

The insurance provides safety and security against the loss on a particular event. In case of life insurance payment is made when death occurs or the term of insurance is expired. The loss to the family at a premature death and payment in old age are adequately provided by insurance. In other words, security against premature death and old age sufferings are provided by life insurance. Insurance affords peace of mind. It banishes fear and uncertainty, fire, windstorm, automobile accident, damage and death are almost beyond the control of human agency and in occurrence of any of these events may frustrate or weaken the human mind. By means of insurance, however, much of the uncertainty that centre's about the wish for security and its attainment may be eliminated. Insurance eliminates dependency, at the death of the husband or father or destruction of family need no elaboration. Similarly, at destruction of property and goods, the family would suffer a lot. It brings reduced standards of living and the suffering may go to any extent of begging from the relatives, neighbors or friends. The economic independence of the family is reduced or, sometimes, lost totally. The insurance is here to assist them and provides adequate amount at the time of sufferings. Life insurance encourages saving, the elements of protection and investments are present only in case of life insurance. In most of the life policies elements of saving predominates. These policies combine the programs of insurance and savings. Life insurance provides profitable investment Individuals unwilling or unable to handle their own funds have been pleased to find an outlet for their investment in life insurance policies. Life insurance fulfills the needs of a person, the needs of a person are divided into a) family needs, b) old-age needs, c)re-adjustment needs, d)special needs, e) the clean-up needs.

### **Scope for the Insurance Sector**

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. 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. 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. So it is long term investment and

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\* Parishkar College of Global Excellence, Jaipur, Rajasthan, India.

need knowledge about that. Indian life insurance is too old. It is there from British Period and after nationalization; it has come fully under Government. In the post liberalization era, insurance has attracted any private players from different parts of the country to start business India. India as a country has potential for growth of this business.

### Indian Insurance in the Global Scenario<sup>1</sup>

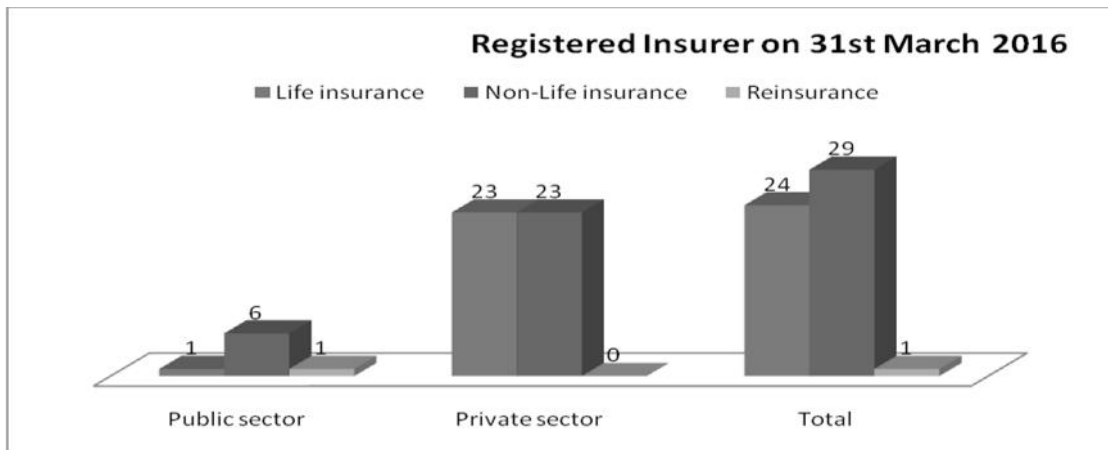
Globally, the share of life insurance business in total premium was 55.6 per cent. However, the share of life insurance business for India was very high at 79.0 per cent. In life insurance business, India is ranked<sup>2</sup> 10th among the 88 countries, India's share in global life insurance market was 2.24 per cent during 2015 where as it was 2.08% in 2014. The life insurance in India (inflation adjusted) increased by 7.8%.

### Registered Insurers in India

All life insurance companies in India have to comply with the strict regulations laid out by Insurance Regulatory and Development Authority of India (IRDAI). Life Insurance Corporation of India (LIC), the state owned behemoth, remains by far the largest player in the market. The private companies have come out with products called ULIPs (Unit Linked Investment Plans) which offer both life cover as well as scope for savings or investment options as the customer desires.

**Table & Graph 1: Registered Insurers<sup>3</sup> in India on 31st March 2016**

Type of Business	Public sector	Private sector	Total
Life insurance	1	23	24
Non-Life insurance	6	23	29
Reinsurance	1	0	1

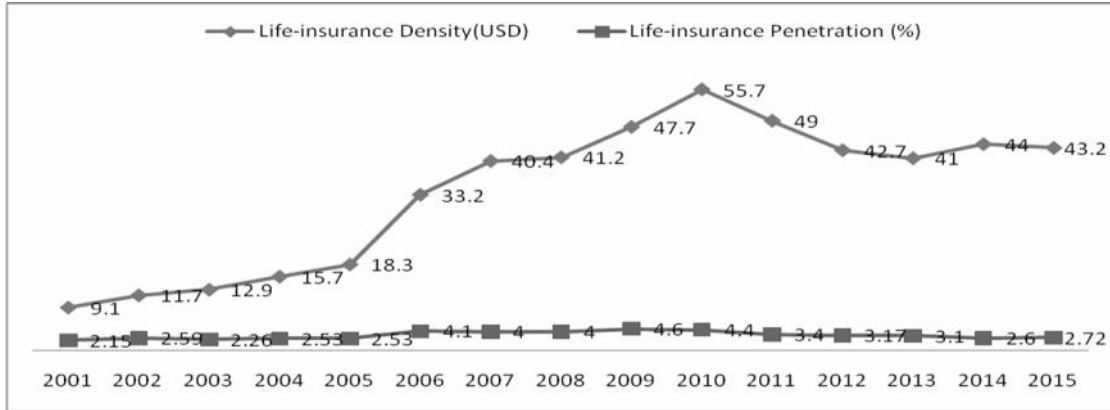


The table 1 explains registered insurers in India, there are 54 insurance companies operating of which 24 are in the life insurance business and 29 are in non-life insurance business. In addition, GIC is the sole national reinsurer. Of the 54 companies presently in operation, eight are in the public sector and the remaining forty six are in the private sector. Two are specialized insurers, namely ECGC and AIC, one in life insurance namely LIC, four in non-life insurance and one in reinsurance.

**Table and Graph 2: Insurance Penetration and Density in India**

Year	Life-insurance	
	Density <sup>4</sup> (USD)	Penetration <sup>5</sup> (Percentage)
2001	9.1	2.15
2002	11.7	2.59
2003	12.9	2.26
2004	15.7	2.53
2005	18.3	2.53
2006	33.2	4.10
2007	40.4	4.00
2008	41.2	4.00
2009	47.7	4.60

2010	55.7	4.40
2011	49.0	3.40
2012	42.7	3.17
2013	41.0	3.10
2014	44.0	2.60
2015	43.2	2.72

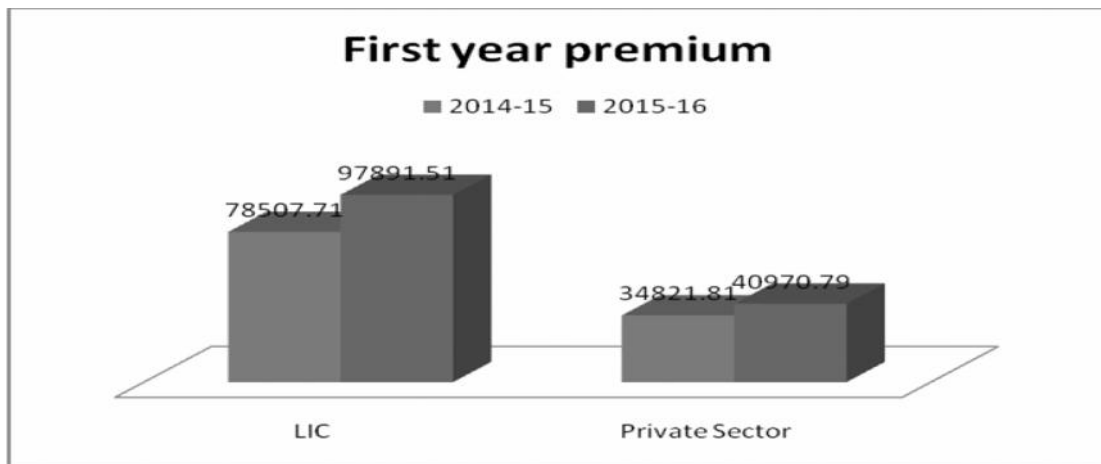


The measure of insurance penetration<sup>6</sup> and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). 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. However, since then, the level of penetration was declining. However there was slight increase in 2015 reaching 3.44 percent compared to 3.3 per cent in 2014. A similar trend was observed in the level of insurance density which reached the maximum of USD 64.4 in the year 2010 from the level of USD 11.5 in 2001. During the year under review 2015, the insurance density was USD 54.7. The insurance density of life insurance business had gone up from USD 9.1 in 2001 to reach the peak at USD 55.7 in 2010. During 2015, the level of life insurance density was USD 43.2. Similarly, the life insurance penetration surged from 2.15 per cent in 2001 to 4.60 per cent in 2009. Since then, it has exhibited a declining trend. However there was a slight increased 2.72 percent in 2015 when compared to 2.6 per cent in 2014.

**Growth of Insurance Industry in India**

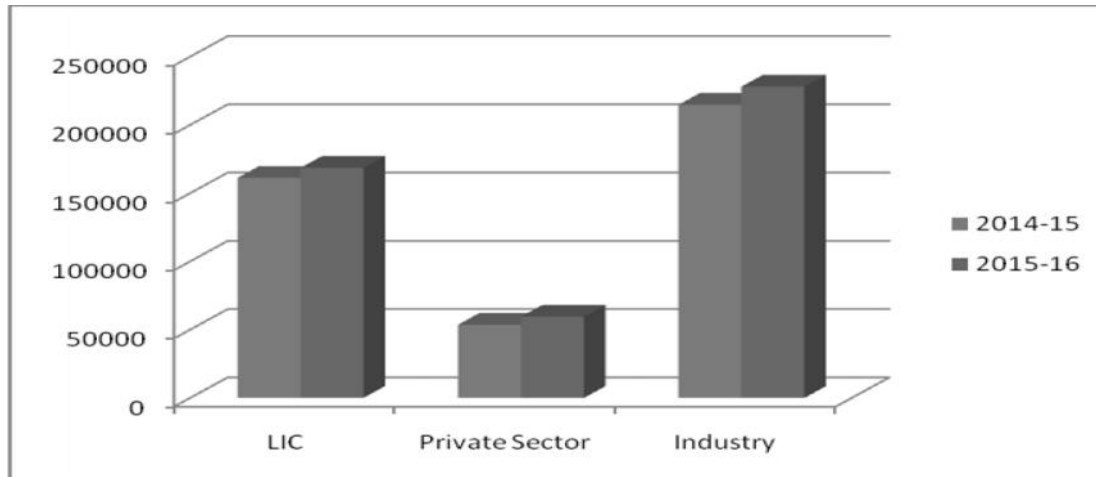
**Table and Graph 3: First Year Premium (Rs in Crs ) of life Insurers**

Type of insurer	2014-15	2015-16
LIC	78507.71	97891.51
Private Sector	34821.81	40970.79



**Table and Graph 4: Renewal Premium (Rs in Crs ) of life Insurers**

Type of insurer	2014-15	2015-16
LIC	161159.94	168552.70
Private Sector	53612.54	59528.23
Industry	214772.5	228080.9



Risk is inherent part and parcel of our lives. None of us know what is going to happen to us in the future but what we do know is that accidents happen. The insurance industry in India has changed swiftly in the turbulent economic environment throughout the world. Indian insurance companies have become competitive in nature and are undoubtedly serving customers in manifold ways. One of the important contractual savings institutions is life insurance which provides multi dimensional services having a significant impact on economic growth. Insurance is one of the demanding financial products in India. Its basic motto is to protect the family from any uncertainty in life. During April 2015 to February 2016 period, the life insurance industry recorded a new premium income of Rs 1.072 trillion (US\$ 15.75 billion), indicating a growth rate of 18.3 per cent. 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 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 two 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.

#### **Investments and Developments of Indian Insurance Sector**

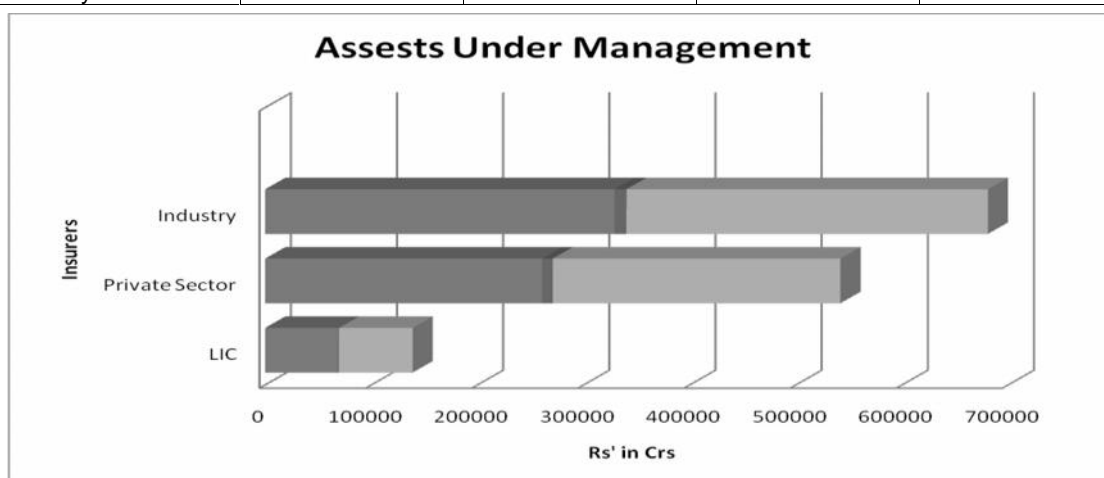
Insurance companies are required to invest at least 25 per cent of their funds in central government securities and not less than 50 per cent has to be invested in central/state government or other government approved securities (IRDA 2015). General insurance companies are required to invest at least invest 20 per cent of their funds in central government securities and not less than 40 per cent has to be invested in central/state government and other state approved securities (IRDA 2015).

- The Insurance sector in India is expected to attract over Rs 12,000 Crs (US\$ 1.76 billion) in 2016 as many foreign companies are expected to raise their stake in private sector insurance joint ventures.
- Quest Global, a pure-play engineering and Research and Development (R&D) services provider, has raised investment of around Rs 2,396 Crs (US\$ 351.54 million) from leading global investors Bain Capital, GIC and Advent International for a minority stake in the company.
- Foreign Direct Investment in the insurance sector stood at US\$ 341 million in March September, 2015, showing a growth of 152 per cent compared to the same period last year.

- 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 percent.
- Canada-based Sun Life Financial Inc plans to increase its stake from 26 per cent to 49 percent in Birla Sun Life Insurance Co Ltd, a joint venture with Aditya Birla Nuvo Ltd, through buying of shares worth Rs 1,664 Crs (US\$ 244.14 million).
- Nippon Life Insurance, Japan's second largest life insurance company, has signed definitive agreements to invest Rs 2,265 Crs (US\$ 332.32 million) in order to increase its stake in Reliance Life Insurance from 26 per cent to 49 per cent.
- The Central Government is planning to launch an all-in-one insurance scheme for farmers called the Unified Package Insurance Scheme (Bhartiya Krishi Bima Yojana). The proposed scheme will have various features like crop insurance, health cover, personal accident insurance, live stock insurance, insurance cover for agriculture implements like tractors and pump sets, student safety insurance and life insurance.
- Government launched a special enrolment drive, Suraksha Bandhan Drive comprising of sale of gift cheques and launch of deposit schemes in bank branches, to facilitate enrolment under Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY).
- To increase the subscriber base and ensure wider reach, the Central Government has eased several norms for its flagship insurance scheme Atal Pension Yojana (APY), in terms of more options for periodical contributions, voluntary and premature exits and simplified penalty for payment delays.
- Bennett Coleman and Co. Ltd (BCCL), 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 Aegon Religare 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 Card if 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.

**Table and Graph 5: Assets Under Management (Rs' in Crs) of life Insurers**

Type of insurer	Approved Investment	Other Investment	ULIP Funds	Total
LIC	68224.31	1214.95	69439.26	1786312.55
Private Sector	260749.82	10222.93	270972.74	461209.63
Industry	328974.12	11437.88	340412.00	2247522.18



### Key Trends in the Insurance Industry

- India with about 200 million middle class household shows a huge untapped potential for players in the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance sector in India has come to a position of very high potential and competitiveness in the market. Indians, have always seen life insurance as a tax saving device, are now suddenly turning to the private sector that are providing them new products and variety for their choice.
- Consumers remain the most important centre of the insurance sector. After the entry of the foreign players the industry is seeing a lot of competition and thus improvement of the customer service in the industry. Computerization of operations and updating of technology has become imperative in the current scenario. Foreign players are bringing in international best practices in service through use of latest technologies.
- The insurance agents still remain the main source through which insurance products are sold. The concept is very well established in the country like India but still the increasing use of other sources is imperative. At present the distribution channels that are available in the market are listed below.
  - Direct selling
  - Corporate agents
  - Group selling
  - Brokers and cooperative societies
  - Bancassurance
- Internet and technology has helped a lot to insurer. Now policy procuring through online is economical than buying the same plan from agent. The major problem is not getting the support from the agent for that policy, if there is a claim or maturity. The person has to keep direct contact with the company.
- From 2010, the no of advisors have decreased in the industry. The no of agents declined by 29% from March 2010 to March 2013. Also it is expected that more agents will leave the industry. Under this situation, Claim management will be tougher for the companies. As people buy insurance because of the face value of agents, assistance of them is highly essential for good business.
- From the year 2013, it is very clear that traditional plans have gained more weightage over ULIP. As traditional plans are long term products, insurer need to focus more on this. Customer retention and servicing is the key to remain in business. Even if in new pension plan, the capital protection features demands more policy servicing. Here investment and servicing are important for the companies. Above all, Policy administration is the most difficulty area to provide customer servicing.
- Customer satisfaction on service levels of life insurers has improved on several counts, positively impacting insurers' customer loyalty scores, a study by conducted by market research firm IMRB International has found. As a result, customer loyalty scores have improved in terms of services as well as product-related aspects. "The study shows that close to 60% of the customers are 'truly loyal' to their insurance providers, which is significantly better than 2014," the survey noted.

### Insurance Business

Insurance business is divided into four classes: i) Life Insurance, ii) Fire Insurance, iii) Marine Insurance and iv) Miscellaneous Insurance: Life Insurers transact life insurance business. General Insurers transact the rest. No composites are permitted as per law.

### Insurance Players

The Indian insurance industry has today two types of players:

- The public insurers
- Life insurers: Life Insurance Corporation of India (LIC)
- Non-life insurers:
- General Insurance Corporation of India (GIC).

With effect from December 2000, the four GIC subsidiary companies have been de-linked from the parent company and made as independent insurance companies. At the same time, a reinsurance responsibility has been vested on GIC.

- The Oriental Insurance Company Limited
- The New India Assurance Company Limited
- National Insurance Company Limited
- United India Insurance Company Limited

With effect from December 2002, a new company was promoted by the General Insurance Corporation of India, its four subsidiaries and NABARD. The main objective of this new entity was to protect and secure financial support in the event of damage to crops and other risks in agriculture and to develop insurance products in the best interest of the farming community.

- Agriculture Insurance Company of India

#### **The Private Insurers:**

Life insurers:

- Aegon Religare
- Aviva Life Insurance Company India Private Ltd
- Bajaj Allianz Life Insurance Company Ltd
- Bharti Axa Life Insurance Company Ltd
- Birla Sun Life Insurance Company Ltd
- Canara HSBC Life Insurance Company Ltd
- DHFL Pramerica Life Insurance Company Ltd
- Edleweiss Tokio
- Exide Life Life Insurance Company Ltd
- Future Generali
- HDFC Standard Life Insurance Company Ltd
- ICICI Prudential Life Insurance Company Ltd
- IDBI Federal
- India First
- Kotak Mahindra Life Insurance Company Ltd
- Max New York Life Insurance Company Ltd
- PNB MetLife
- Reliance
- Sahara
- SBI Life Insurance Company Ltd
- Shri Ram
- Star Union Daichi
- TATA AIA Life Insurance Company Ltd

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