

ANALYSIS OF LIFE INSURANCE PENETRATION IN INDIA AFTER REFORMS IN INSURANCE INDUSTRY

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ABSTRACT

Insurance plays a vital role in today's complex world because the amount of risk that may be protected has expanded dramatically in almost every aspect of life. As a result, the insurance industry has grown. The insurance industry serves as a savings mobilizer, a financial broker, and a promoter of investment activity. It can contribute significantly to a country's economic development. After the deregulation of the insurance industry in India, there has been a considerable change in the industry, both in terms of products and services provided to clients. The purpose of this paper is to examine the penetration of life insurance in India. The analysis is entirely based on secondary data gathered from the IRDA's annual report for the years 2001 to 2019. According to the data, the penetration of life insurance industry in India is fluctuating and for the last few years it has been below 3%. Some corrective measures have been suggested to improve penetration rate of India.

Keywords: Insurance Penetration, IRDA, Life Insurance, Suggestive Measures.

Introduction

The origins of insurance in India may be traced back to the pre-British era, with the enactment of the LIC Act on September 1, 1956 marking the start of the Indian insurance movement. LIC had a monopoly on all life insurance operations in India till the year 2000. With the enactment of the IRDA Act of 1999, the insurance business was opened to private insurance companies, and as of 2020, India had 24 life insurance companies functioning, including the Life Insurance Corporation of India (LIC).

Human life is uncertain. Unknowingly, anything can happen to anyone, at any time, in any scenario, and the result of that unfavorable event can result in death or partial or permanent disability for the individual who is impacted.

When a family's breadwinner dies suddenly or becomes permanently bedridden due to a serious disease as a result of an unforeseen incident, the family suffers. They may not be able to meet their duties, such as their children's schooling and daughters' marriage. In this situation, life insurance can be beneficial to dependent family members. On the maturity of the policy or the death or disablement of the family's head, an agreed-upon quantity of money will be paid. They can at least partially fulfil their responsibilities with this amount.

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Insurance penetration is calculated as a percentage of premiums (in dollars) to GDP (in dollars). If India's GDP is \$100 and the total premiums collected in the country are \$4, the country's insurance penetration is 4%. $\text{Total Collected Premium/GDP Value} \times 100 = \$4/\$100 \times 100 = 4\%$

On the other hand, Insurance density, is calculated as a percentage of total premiums (in dollars) to the total population. If the total collected premium in India is \$4 and the population is 100 persons, the insurance density is $\text{Total Collected Premium/Total population} \times 100 = \$4/\$100 \times 100 = 4\%$.

Insurance density is a measure of per capital premium for a country, whereas Insurance penetration is computed to determine the contribution of insurance premium to GDP. Both of these indicators are used to assess the insurance industry's growth.

Objective of the Study

- To Study and understand the issue of Life Insurance Penetration in India.
- To give suggestions to increase the Life Insurance penetration in India.

Need of the Study

Indian Insurance sector has very low penetration rate in comparison with the global standard. Even after two decades of liberalization, poor insurance coverage is a major concern. More than 80% of the population in India is still uninsured. Therefore, there are huge opportunities in India in the field of Insurance which can improve penetration. So, in this paper author tried to give some suggestions to increase penetration rate for the growth of insurance sector.

Research Methodology

This research is analytical in nature and based on secondary data. In this study IRDA annual reports and Handbook of insurance statistics 2019-20, various journals and websites has been used. The period of the study is from 2001 to 2019. With the help of tables and charts the Life Insurance Penetration during the study period have been analysed. Further, the world-wide situations in respect of penetration have also been analysed.

Literature Review

Nagaraja Rao & Satyapriya Periyasamy (2014) in their research article analysed that presence of private insurance companies in the rural market is limited. The perceptions of existing insurance policy holders and insurance agents of Bangalore and Kolar rural are investigated. Study revealed that insurance products are not designed for the rural market, Promotional efforts are insufficient, and insurance companies are not focusing on micro insurance plans. For the established insurance firms in the rural market, these are the key roadblocks.

Dr. Dhananjay Rakshit (2017), in his paper analysed the impact of FDI on the growth of Insurance penetration & density of life and non-life insurance business separately and then insurance Industry as a whole in India.

R Sivarama Prasad & R S N Sharma (2017), in their paper compared growth of various countries' penetration and density with Indian Life Insurance Company. After the formation of the Insurance Regulatory and Development Authority, the Indian insurance industry has grown and developed. Service quality improvement, Settlement of claims and even in remote places, the number of insurance offices is growing.

R. Radhika & Ramesh Kumar Satuluri (2019), in their paper discussed in detail about various corrective measures to all the stakeholders (Government of India, IRDA, Insurance companies) to enhance penetration in India. Study concluded that insurance companies should spend more on advertisement to attract new customers. The entire population adopting smart phone technology, companies have a huge chance to reach out to every individual in both rural and urban areas, increasing insurance penetration over the global average.

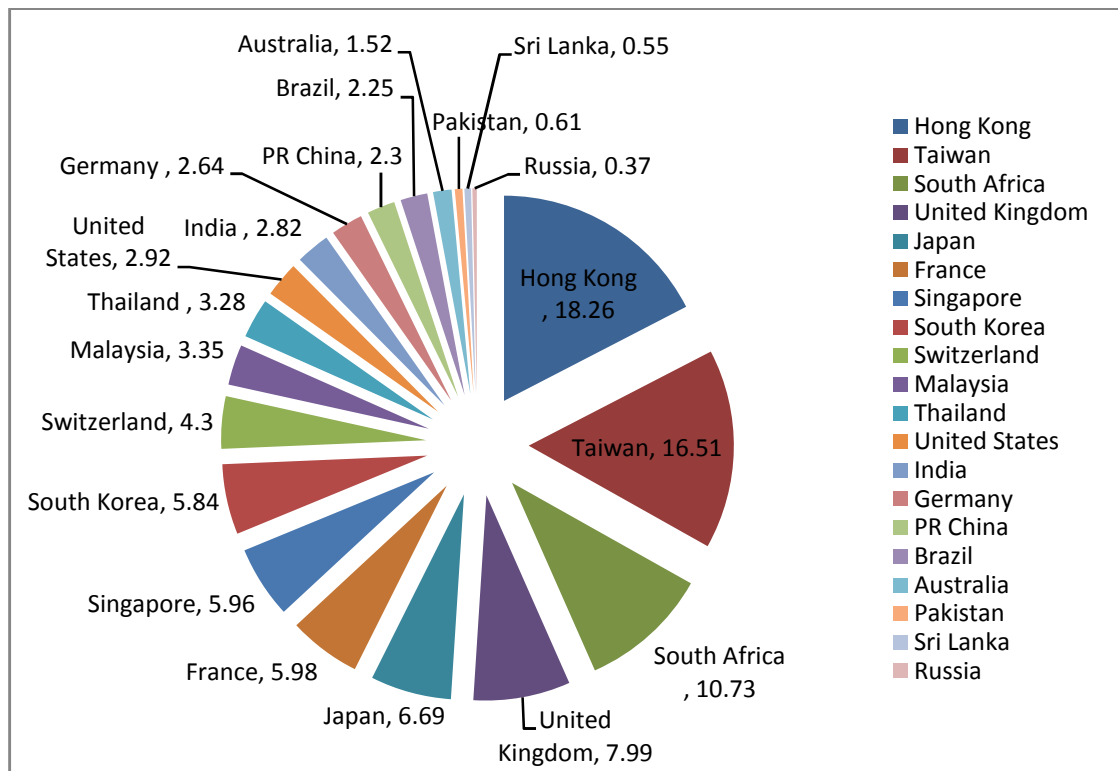
Mrs. L. Terina Grazy & Dr. G. Parimalarani (2019), in their research article "E-Insurance: A Platform for Insurance Penetration In India" highlighted internet penetration level in India and online Insurance sale in India. they have concluded that Insurance firms that go online can generate more business through e-insurance. Because software handles practically all of the insurance operations faster and more correctly than humans, online insurance offers a simplified technique for purchasing insurance.

Data Analysis

Despite we have been in the insurance business for more than 60 years, our Life Insurance penetration is lowest among different countries. The following is a list of life insurance penetration of different countries.

Country	Penetration
Hong Kong	18.26
Taiwan	16.51
South Africa	10.73
United Kingdom	7.99
Japan	6.69
France	5.98
Singapore	5.96
South Korea	5.84
Switzerland	4.3
Malaysia	3.35
Thailand	3.28
United States	2.92
India	2.82
Germany	2.64
PR China	2.30
Brazil	2.25
Australia	1.52
Pakistan	0.61
Sri Lanka	0.55
Russia	0.37
World	3.35

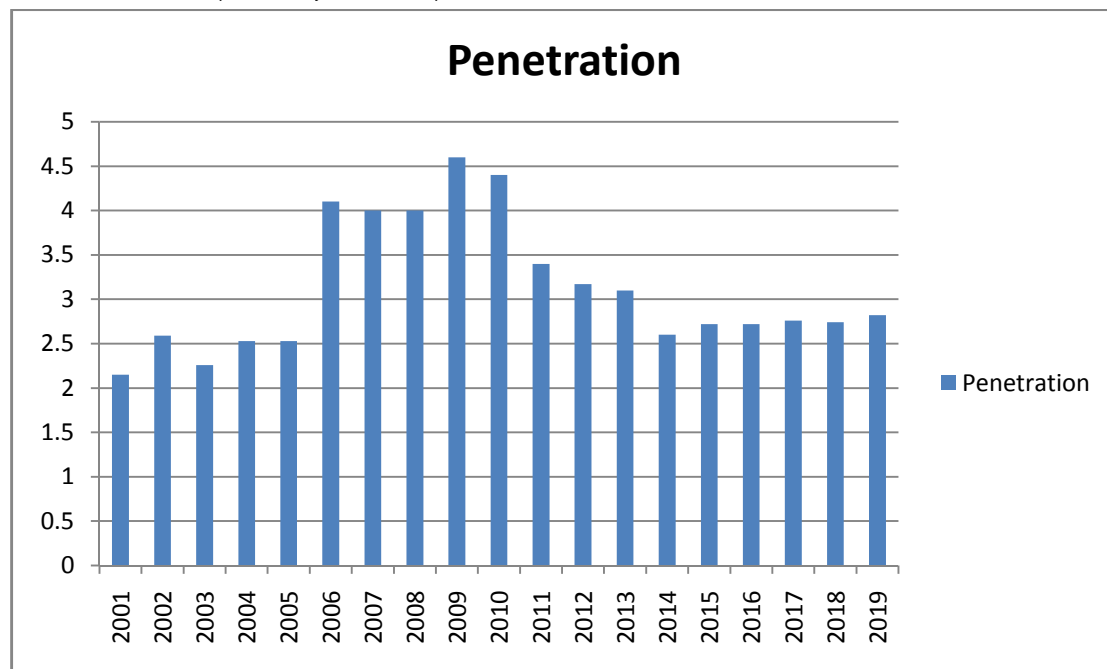
Source: Handbook of Indian Insurance Statistics 2019-20, p.13



We can observe from above table and chart that India's penetration is even lower than world's average and other comparable countries. As of 2019, the penetration for life insurance in India is 2.82%, while global insurance penetration was 3.35%. Sumit Bohra, President, Insurance Brokers Association of India counts lack of awareness and more paperwork among key reasons for low insurance penetration in India. Insurance Penetration level reflects the development of insurance sector in any country.

Year ended 31 st march	Penetration	Growth (%)
2001	2.15	
2002	2.59	20.47%
2003	2.26	-12.74%
2004	2.53	11.95%
2005	2.53	0
2006	4.10	62.06%
2007	4.00	-2.44%
2008	4.00	0
2009	4.60	15%
2010	4.40	-4.35%
2011	3.40	-22.73%
2012	3.17	-6.76%
2013	3.10	-2.21%
2014	2.60	-16.13%
2015	2.72	4.62%
2016	2.72	0
2017	2.76	1.47%
2018	2.74	-0.72%
2019	2.82	2.92%

Source: IRDAI Annual Report for the year 2019-20, p. 8



The life insurance penetration rate increased from 2.15 percent in 2001 to 4.60 percent in 2009. But then it declined and in 2019 it was only 2.82. The preceding statistics show that the private sector's entry has accelerated the sector's growth. But since then it has been steadily declining till 2015. After that it looked a little improved but still it was below 3%.

The rate of increase appears to be very low, even though Insurance Penetration as a percentage of GDP was almost in an increasing trend throughout the study period, resulting in an overall growth of 31.16% (by comparing the values of Insurance Penetration for the 2001 and the same for the 2019). If we compare the growth of each year with the previous year in the above table, we can see positive growth in few years only. Apart from 2002, 2006 and 2008, positive growth was also seen in very few years.

Recommendations

- There is a need of continuous monitoring and prompt execution of regulations.
- The rights and benefits to the policyholder must be protected so that they consider insurance as a good investment option and create more investment opportunities.
- Since the Policy document is a bit complex and not easily understood by all individuals, the insurance industry should simplify its documentation. Secondly, the pricing of insurance products is not easy to understand and many insurance products are expensive as well as long term. So, Insurance companies should try to attract the middle class by issuing short term and affordable insurance products.
- Insurance services have not reached many villages in India so insurance companies should seize the opportunity and expand their network in the villages. IRDAI should come out with branch expansion road map.
- With the drop in commission, the agency career has taken a hit. Because of the low pay, the agency is always thought of as a part-time job. A job in the agency should be very rewarding, with increased monetary and non-monetary perks. By expanding the network of agencies, more policies can be sold.
- Insurance companies and IRDA should arrange awareness programs through social networking sites and digital marketing.
- Government should give exclusive tax benefits to attract customer to invest in Life Insurance.

Limitations of the Study

The study is based on the secondary data for the period from 2000-01 to 2018-19.

The study has taken only Life Insurance Penetration as a parameters. Some other parameters like insurance density, product innovation, number of total policy sale and total insurance premium collected could have enhance the study.

Conclusion

India's Insurable population is increasing. With various changes in the regulatory framework, the life insurance sector's future looks bright. This will lead to even more changes in the way the industry conducts business and interacts with its clients. The rise of Indian life insurance will be aided by demographic factors such as a growing middle class, a young insurable population, and a greater awareness of the need for protection, child education and retirement planning. Low penetration is also due to a large amount of paperwork, which can be improved through digitalization. And also complicated insurance policy isn't helping the cause. So, Simple plans that provide a benefit rather than an indemnity could also improve penetration rate.

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