Volume : 2 | Issue : 7 | July 2013 • ISSN No 2277 - 8160

Research Paper | Management

Dynamics of Indian Insurance Industry – Role of Public and Private Players

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ABSTRACT

Insurance occupies an important place in the complex modern world since risk, which can be insured, has increased enormously in every walk of life. This has led to growth in the insurance business and evolution of various types of insurance covers. The insurance sector acts as a mobiliser of savings and a financial intermediary and is also a promoter of investment activities. It can play a significant role in the economic development of a country, while economic development itself can facilitate the growth of the insurance sector. After the deregulation of insurance business in India there is a significant change in the industry both in the products as well as the services offered to the customers. The present paper is an attempt to analyze the role of public and private insurers in the growth of insurance industry in India.

KEYWORDS:

Introduction:

Insurance markets in India are showing clear signs of expansion, requiring insurers to be innovative in their approach towards achievement of sustainable growth. In the life insurance business, India ranked 10th among the 156 countries, for which the data is published by Swiss Re. During 2011-12, the life insurance premium in India declined by 8.5 per cent. During the same period, the global life insurance premium declined by 2.7 per cent. The share of Indian life insurance sector in global life insurance market stood at 2.30 per cent during 2011, as against 2.54 per cent in 2010.

The non-life insurance sector witnessed a significant growth of 13.5 per cent during 2011-12. Its performance is far better when compared to global non-life premium, which expanded by a meager 1.8 per cent during the same period. The share of Indian non-life insurance premium in global non-life insurance premium increased slightly from 0.57 per cent in 2010-11 to 0.62 per cent in the year 2011-12. India stood at 19th rank in global non-life premium income.

The establishment of Insurance Regulatory and Development Authority (IRDA) in the year 1999 is a landmark in the history of insurance sector in India. Till 1999 the insurance sector was in the public sector and the LIC being the only player in the market enjoyed the monopoly position in India. With a key objective of promoting competition, in order to improve customer satisfaction through increased choice and lower premiums, while ensuring the financial security of the insurance market IRDA deregulated the insurance sector and permitted the entry of private companies into 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.

The objective of the present study is to analyze the role of both public and private players in the growth and expansion of the industry and to identify the significance of these sectors in promoting the insurance business in India.

Insurance penetration & 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). Since opening up of Indian insurance sector for private participation, India has reported increase in insurance density for every subsequent year and for the first time reported a fall in the year 2011. However, insurance penetration, which surged consistently till 2009, slipped in the consecutive second year on account of slower rate of growth in the life insurance premium as compared to the rate of growth of the Indian economy.

Table I: Insurance Penetration and Density in India

Year	Life		Non-Life		Industry	
	Density (USD)	Penetration (%)	Density (USD)	Penetration (%)	Density (USD)	Penetration (%)
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3.0	0.67	14.7	3.26
2003	12.9	2.26	3.5	0.62	16.4	2.88
2004	15.7	2.53	4.0	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.10	5.2	0.60	38.4	4.80
2007	40.4	4.00	6.2	0.60	46.6	4.70
2008	41.2	4.00	6.2	0.60	47.4	4.60
2009	47.7	4.60	6.7	0.60	54.3	5.20
2010	55.7	4.40	8.7	0.71	64.4	5.10
2011	49.0	3.40	10.0	0.70	59.0	4.10

Source: IRDA Annual Reports

The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to USD 49.0 in 2011 while reaching the peak at USD 55.7 in 2010. Similarly, life insurance penetration surged from 2.15 per cent in 2001 to 4.60 per cent in 2009, before slipping to 4.40 per cent in 2010 and further slipping to 3.40 per cent in 2011. Over the last 10 years, the penetration of non-life insurance sector in the country remained steady within the narrow range of 0.56-0.71 per cent. However, its density has gone up from USD 2.4 in 2001 to USD 10.0 in 2011.

Registered insurers in India:

At the end-September 2012, there are fifty-two insurance companies operating in India; of which twenty four are in the life insurance business and twenty-seven are in general insurance business. In addition, GIC is the sole national reinsurer. Of the fifty two companies presently in operations, eight are in the public sector - two are specialised insurers, namely ECGC and AIC, one in life insurance namely LIC, four in general insurance and one in reinsurance. The remaining forty four companies are in the private sector.

Table II: Registered Insurers in India (as on 30th September, 2012)

Type of Business	Public Sector	Private Sector	Total
Life Insurance	1 (4.2)	23 (95.8)	24 (100)
General Insurance	6 (22.2)	21 (77.8)	27 (100)

Reinsurance	1 (100)	0 (-)	1 (100)
Total	8 (15.4)	44 (84.6)	52 (100)

Source: IRDA Annual Report 2011-12

From the above table it is evident that the share of public sector insurers is very less in number when compared to that of the private sector. Within a decade after the deregulation of the insurance sector, private players are able to dominate in the number in both life and general insurance business.

Expansion of Offices:
The growth of any industry depends on the expansion of offices which results in reaching the targeted customers. Life insurance business has wide spread due to establishment of offices by both public and private players throughout the country. Table III given below shows the number of life insurance offices established by these sectors.

Table III: Number of Life Insurance Offices (as on 31st March)

Insurer	2007	2008	2009	2010	2011	2012
Private	3072	6391	8785	8768	8175	7712
LIC	2301	2522	3030	3250	3371	3455
Industry	5373	8913	11815	12018	11546	11167

Source: Statistical Hand book of Insurance 2011-12

From the above table it is clear that the private sector has gone for a massive expansion of offices during 2007-09 but thereafter it went on closing the offices resulting in decrease in the number of offices. LIC being the only insurer in the public sector maintained a steady growth in the expansion of offices from 2007-2012, but this expansion is low when compared to that of private insurers. The life insurance business is well dominated by the private insurers in terms of number of offices with a 69 per cent of the total offices in the life insurance segment.

Geographical Distribution of Offices of Life Insurers:
As can be observed from below table that the majority of the offices of life insurers are located in semi-urban or other places where HRA classification is not listed, which are small towns. The spread of offices by private insurers is more at semi-urban places which is a good sign for the growth of industry.

Table IV: Distribution of Offices of Life Insurers (As on 31st March, 2012)

Insurer	Metro	Urban	Semi-Urban	Others	Total
Private	741	1393	3822	1756	7712
LIC	365	563	970	1557	3455
Industry	1106	1956	4792	3313	11167

Source: IRDA Annual Report 2011-12

Non-Life Insurance:
As on 31st March, 2012, twenty four non-life insurance companies have been granted registration for carrying on non-life insurance business in the country. Of these, six are in public sector and the rest are in private sector. Of the private sector insurers, three have been granted registration to carry on operations in the health segment. Among the public sector companies, while the four public sector insurance companies carry on multi line operations, there are two specialized insurance companies; one for credit insurance (ECGC) and the other for crop insurance (AIC). The activities of standalone health insurance companies and the specialized insurance companies have been covered under separate heads.

The non-life insurance industry underwrote total premium of `52,876 crore in India for the year 2011-12 as against `42,576 crore in 2010-11, registering a growth of 24.19 per cent as against an increase of 22.98 per cent recorded in the previous year. The public sector insurers exhibited growth in 2011-12 at 21.50 per cent; over the previous year's growth rate of 21.84 per cent. The private non-life insurers registered growth of 28.07 per cent, which is higher than 24.67 per cent achieved during the previous year.

The premium underwritten by 15 private sector insurers (other than the insurers carrying on exclusively health insurance business) in 2011-12 was `22,315 crore as against `17,425 crore in 2010-11. ICICI Lombard continued to be the largest private sector non-life insurance company, with market share of 9.74 per cent. It reported a marginal decrease in market share in the year 2011-12 down from 9.99 per cent in 2010-11. Bajaj Allianz, the second largest private sector non-life insurance company underwrote a total premium of `3,287 crore, witnessed decline in its market share from 6.74 per cent in 2010-11 to 6.22 per cent during the year under review. All the 15 private insurers reported an increase in premium underwritten for the year 2011-12.

In case of public sector non-life insurers, all four companies expanded their business with an increase in respective premium collections. The market share of United increased to 15.47 per cent in 2011-12 from 14.98 per cent in 2010-11 and the market share of National increased to 14.73 per cent in 2011-12 from 14.61 per cent in the previous year. However the market share of New India declined to 16.16 per cent in 2011-12 from 16.67 per cent in the previous year and the market share of Oriental declined to 11.44 per cent in 2011-12 from 12.82 per cent in the previous year. New India, with insurance premium of `8,543 crore, remains the largest non-life insurance company in India with market share of 16.16 per cent.

Conclusion:
The Indian insurance industry is on a high. The business landscape has changed significantly in the fiscal ending March 2011. While 2009-10 was challenging for the global economy struggling to come out of the economic crisis of 2008-09. India has demonstrated strength and resilience and recorded a robust growth, bouncing back with the economy growing at 8.6% in FY 2010-11. The Indian insurance industry clocked a growth rate of 11.5%, with the non-life industry registering an impressive growth rate of 22%. The role of both private and public insurers is significant in the growth of insurance sector in India. Though the public insurers are less in number when compared to that of private insurers, still the public sector is dominating the industry and it is evident from this that the people trust in public sector. In an intensely competitive insurance market, differentiation through product innovation, servicing, distribution mechanisms and innovative claims management practices is going to be the only way for insurers to stand out from the crowd and maintain or improve their market share and profitability. Only an out-of-the-box thinking by insurers will help unleash the potential available under the insurance sector.

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