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Insurance Sector in India: Challenges and Opportunities

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ABSTRACT

Insurance sector in India is one of the growing sectors of the economy. India's growing consumer class, rising insurance awareness, increasing domestic savings and investments are among the most critical factors that have positively driven the market penetration of the insurance product among its consumer segments. Both the life and non-life insurance in India, which were nationalized in the 1950s and 1960s respectively, which were liberalized in 1990s. Since the formation of IRDA and the opening of the insurance sector to private players in 2000, the Indian insurance sector has witnessed rapid growth. The opening up of the insurance sector has led to rapid growth of the sector. The total premium of the insurance industry has increased at a CAGR of 24.6 percent to reach INR 2,523.9 billion in 2009

KEYWORDS : Life Insurance, LIC, IRDA, Private Insurance Companies

Introduction:

The economic reforms initiated in the early 90s paved the way for the growth and opening up of the financial sector, which led to a sustained period of economic growth. The insurance industry was opened up for private players in 2000, and has seen tremendous growth over the past decade with the entry of global insurance majors. India is fast emerging as one of the world's most dynamic insurance markets with significant untapped potential. The insurance sector plays a critical role in a country's economic development. It acts as a mobilizer of savings, a financial intermediary, a promoter of investment activities, a stabilizer of financial markets and a risk manager. The life insurance sector plays an important role in providing risk cover, investment and tax planning for individuals; the non-life insurance industry provides a risk cover for assets. Health insurance and pension systems are fundamental to protecting individuals against the hazards of life, and India, as the second-most populous nation in the world, offers significant potential for that type of cover. Furthermore, fire and liability insurance are essential for corporations to safeguard infrastructure projects and investment risks. Private insurance systems complement social security systems and add value by matching risk with price.

Indian Insurance Sector:

Insurance industry in India is governed by Insurance Act 1938, Life Insurance Corporation Act 1956, General Insurance Business (Nationalization) Act 1972, and Insurance Regulatory and Development Authority (IRDA) Act 1999. Insurance in India used to be tightly regulated and monopolized by state run insurers. Following the move towards economic reforms in the early 1990s, various plans to revamp the sector finally resulted in the passage of the insurance business was opened on two fronts. Firstly, domestic private-sector companies were permitted to enter both life and non-life insurance business. Secondly, foreign companies were allowed to participate, albeit with a cap on shareholding at 26%. With the introduction of IRDA Act, the insurance sector joined a set of other economic sector on the growth march. Following the passage of the Insurance Regulatory and Development Authority (IRDA) Act 1999. India abandoned public sector exclusively in the insurance industry in favors of market driven competition. This shift has brought about major changes to the insurance industry. In India, the Ministry of Finance is responsible for enacting and implementing legislations for the insurance sector with the Insurance Regulatory and Development Authority (IRDA) entitle with the regulatory and development role. Both the life and non-life insurance sectors in India, which were nationalized in the 1950s and 1960s, respectively, were liberalized in the 1990s. Since the formation of IRDA and the opening up of the insurance sector to private players in 2000, the Indian insurance sector has witnessed rapid growth. A growing middle-class segment, rising income, increasing insurance awareness, rising investment and infrastructure spending, have laid a strong foundation to extend insurance services in India. The sector which stood at a strong US$ 72 billion in 2012 has the potential to grow to US$ 280 billion by 2020.

Growth of Life Insurance Business in India:

With the entry of private insurers in life insurance business, it is obvious that some proportion of new business will go in hands of private life insurers. An attempt, therefore, has been made to study the growth of new business in terms of policies and premium income of Indian life insurance industry.

Table 1: Growth of Life Insurance New Business in India

Year	New Life Insurance Business					
	LIC		Private Companies		Total	
	No. of policies (in. lac.)	Premium in Rs. Cr.	No. of policies (in. lac.)	Premium in Rs. Cr.	No. of policies (in. lac.)	Premium in Rs. Cr.
2000-01	N.A.	9700.58 (99.92)	N.A.	6.45 (0.08)	N.A.	9707.45
2001-02	N.A.	19558.77 (98.50)	N.A.	268.51 (0.08)	N.A.	19857.28
2002-03	245.46 (96.75)	15976.76 (94.30)	8.25 (4.25)	965.60 (1.50)	253.71	16942.45
2003-04	269.58 (94.20)	17347..62 (87.67)	16.59 (5.80)	2440.70 (5.70)	286.27	19788.32
2004-05	239.78 (91.48)	20653.06 (78.78)	22.33 (8.52)	5564.57 (12.33)	262.11	26217.63
2005-06	315.91 (89.08)	28515.87 (73.52)	38.71 (10.92)	10269.67 (21.22)	354.62	38785.54
2006-07	382.29 (82.83)	56223.56 (74.35)	79.22 (17.17)	19393.69 (26.48)	461.51	75617.25
2007-08	376.13 (73.93)	59182.20 (63.64)	132.72 (26.07)	33806.51 (25.65)	508.74	92988.71
2009-10	270.58	61718.52	111.65	24980.33 (36.36)	382.23	86698.85
2010-11	262.08	67135.31	88.45	26328.49	350.53	93463.80

Source: Compile from various Annual Reports of IRDA, IRDA journals and issues of life insurance

Above table reveals that total new business policies of life insurance industry increased from 253.71 lac in 2002-03 to 353.74 lac in 2010-11. Registering a growth rate of 16.1 percent during the period. Similarly, total new business premium of life insurance industry increased from Rs. 9707.45 crore in 2000-01 to Rs. 92988.71 crore in 2007-08, which shows a growth rate of 35.1 percent. On the other hand LIC's new business policies increased from 245.46 lac in 2002-03 to 376.13 lac in 2007-08, showing a growth rate of just 10.4 percent during the same period. Similarly, LICs new business premium increased from Rs. 9700.98 crore in 2000-01 to Rs. 59182.20 crore in 2007-08, which has grown at the rate of 26.7 percent during the same period. However, new business premium policies of private life insurance increased from 25 lac in 2002-03 to 132.61 lac in 2007-08, registering high growth rate of 72.7 percent during the same period. Similarly, new business premium of private life insurance increased from Rs. 6.45 crore in 2000-01 to Rs. 33,806.51 crore in 2007-08, registering a significant high growth rate of 189.6 percent during the same period. Further, the share of LIC decreased from 96.75 percent in 2002-03 to 73.93 in 2007-08 in terms of policies and from 99.92 percent in 2002-03 to 63.64 percent in 2007-

08 in terms of premium. This shows that private life insurance business increasing over the period.

Opportunities

i) Aggressive marketing strategies by private sector insurers will buoy consumer awareness of risk and expand the markets for products
ii) Competition in the insurance sector will allow market forces to set premiums that are appropriate for exposures and push insurers to differentiate their products and services.
iii) There is a probability of a spurt in employment opportunities
iv) The falling interest rates, the scope for entering related areas like banking and pensions in a bit for synergy and the promise of e-commerce are some of the opportunities knocking at the door of the insurance sector.
v) Given the enormous potential the Indian insurance market, it is expected that there will be enough business for the industry entrants.

Challenges:

i) Premium rates will remain under pressure due to intense competition on the more profitable lines.
ii) Public and private sector insurer's greater reliance on their investment portfolios to generate sufficient income and gains for net profits would subject them to the volatility of the financial markets.
iii) As far as the prospective are concerned, the greatest challenge is that of setting up infrastructure and to reach out to as many areas as possible.
iv) The biggest challenge for public sector giant, the Life Insurance Corporation is one of the sustaining the huge growths it has shown in the recent times.
v) Despite the liberalization in the insurance sector, public sector insurance companies are expected to maintain their dominant positions, at least in the foreseeable future.

Conclusion:

From above discussion it is evident that life insurance expanded tremendously from 2000 onwards in terms of new business policies and premium business. The major drivers include sound economic fundamentals, a rising middle-income class, an improving regulatory framework, and rising risk awareness. The fundamental regulatory changes in the insurance sector since 1999 were significant for future growth. Despite the restriction of 26 percent on foreign ownership, large foreign insurers were entered in the Indian market. Private life insurers used the new business channels of marketing to a great extent when compared with the LIC. Indian insurance companies still have dominant market position. But this would probably change over the next decade.

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