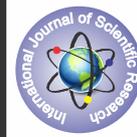


Indian Insurance Sector – The Emerging Trends



Management

KEYWORDS: Insurance; Insurer; Insured; Insurance Penetration; Policy Holder.

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ABSTRACT

Insurance is the backbone of a country's risk management system. The insurance companies offer various products to individuals and businesses to provide financial security by providing protection from risk. Insurance can be broadly classified into Life Insurance, General Insurance and Social Insurance. Empirical evidence reveals the relationship between the performance of insurance industry and economic development. In India, the insurance penetration and density are very low compared with international levels, even though it is the feeling of the common man in India that insurance is a mechanism for managing the risks. This paper is an attempt to examine the emerging trends in Indian Insurance sector.

I. Introduction:

Insurance is the backbone of a country's risk management system. The insurance companies offer various products to individuals and businesses to provide financial security by providing protection from risk. Insurance companies are largest financial institutions and are a source of long term capital for large-scale business firms and infrastructure projects. Insurance companies provide support in stabilizing the markets by evening out any fluctuations through their participation in financial markets. The insurance companies offer life insurance, pension and retirement income, health risks, loss of property, risk of legal liability etc. Businesses also deepened on these companies for property, liability and employee compensation covers.

The term 'insurance' can be defined in both financial and legal terms. In financial sense insurance is a social device in which a group of individuals (insured's) transfer risk to another party (insurer) in order to combine loss experience, which permits statistical prediction of losses and provides for payment of losses from funds contributed (premiums) by all members who transferred risk. In legal sense insurance is a contract by which one party consideration of the price paid to him proportionate to the risk provides security to the other party that he shall not suffer loss, damage or prejudice by the happening of certain specified events.

Insurance can be broadly classified into Life Insurance, General Insurance and Social Insurance. Life insurance is the subject matter of insurance on the life of human beings. The insurer will pay the fixed amount of insurance at the time of death or at the expiry of certain period. The general insurance includes property insurance, liability insurance and other forms of insurance. Fire and marine insurance are called Property insurance. The social insurance is to provide protection to the weaker sections of the premium for adequate insurance. The various forms of social insurance include pension plans, disability benefits, unemployment benefits, sick insurance and industrial insurance.

II. Insurance Sector in India:

Investments are necessary for economic development and savings are the primary source of investments. It is true that insurance products are the major instruments for the mobilization of savings, particularly from middle and lower group households. Empirical evidence reveals the relationship between the performance of insurance industry and economic development. In India, the insurance penetration and density are very low compared with international levels, even though it is the feeling of the common man in India that insurance is a mechanism for managing the risks. There

is a good empirical and theoretical evidence that insurance sector influences economic development of India. With largest number of life insurance policies in force in the world, Insurance happens to be a mega opportunity in India. Together with banking services, it adds about 7 percent to the country's GDP. Yet, nearly 80 percent of India population is without life insurance cover while health insurance and non-life insurance continues to be below international standards. The insurance industry in India consists of 52 insurance companies of which 24 are in life insurance business and 28 are non-life insurance.

Looking at the history, a form of "community insurance" has prevalent around 1000 BC and practiced by the Aryans and the concept of life insurance in India dates back to 1818 when it was perceived as a means to provide for English windows. The Bombay Mutual Life Insurance Society started its business in 1870 and the Oriental Insurance Company was established in 1880. The first General insurance company established in the year 1850 in Calcutta by the British Insurance business was almost in the hands of overseas companies till the end of nineteenth century. It can be noted that insurance regulation formally began in India with the passing of the Life Insurance Companies Act of 1912. By 1938 there were 176 insurance companies. The passing of Insurance Act of 1938 provided strict state control over insurance business as a comprehensive legislation.

The general insurance (non-life) insurance business continued to thrive with the private sector till 1972. The general insurance industry was nationalized in 1972. Till the end of 2000, two state-run insurance companies, namely LIC and GIC were the monopoly insurance providers in India. In fiscal 2000-01, the Indian Government lifted all entry restrictions for private sector investors. Foreign investment insurance market was allowed with 26 percent cap. Indian parliament has cleared a bill on July 30, 2002 de-linking the four subsidiaries for GIC.

The Reforms in the Indian Insurance Sector were initiated with the passage of the Insurance Regulatory and Development (IRDA) Bill in 1999, ansequently IRDA Act 1999, Insurance Regulatory and Development Authority was established on 19th April 2000 to protect the interests of holders of insurance policy out to regulate, promote and ensure orderly growth of the insurance industry.

III. Objectives of the Study:

- To have an overview of the Indian Insurance sector.
- To examine the emerging trends and growth drivers in Indian

insurance sector.

- To offer relevant suggestions for the consideration of stakeholders in insurance sector.

IV. Review of Literature:

Rajesham, Ch. And Rajender, K (2006) in their research article titled “Changing Scenario of Insurance Sector”, Indian Journal of Marketing observed that insurance companies of India are required to come up with multi-benefit policies.

Siva Prasad A.V.V. (2012) in his doctoral research work titled “CRM in Insurance sectors, A study of select insurance companies” analyzed the CRM practices in selected insurance companies through eliciting the differences in opinion among the executives. Based on the findings of the study, he presented a model for effective implementation of CRM. Mathiviran, R, (2010) research paper revealed that in the Indian Insurance market the competitive conditions have abnormally changed. Dramatic changes have taken in technology and government regulations. In order to sustain the insurance companies have to introduce new products towards competitive advantage. The Annual Report 2014-15 of the IRDA (www.irda.gov.in) revealed that at the end of March 2015, there are 53 insurance companies operating in India; of which 24 are in the life insurance business and 28 are in non-life insurance business. In addition, GIC is the sole national reinsurer. India’s share in global life insurance market was 2.09 per cent during 2014, and non-life insurance sector witnessed a growth of 4.8 per cent during 2014.

V. THE EMERGING TRENDS:

V.1 Economic Environment:

The India’s economy picked up in 2014-15 rising by 7.3 per cent on top of a growth of 6.9 per cent in 2013-14. The quickening of activity in 2014-15 was largely led by industry and services. Higher growth was observed in manufacturing and electricity generation. In the services sector, financial, real estate, and professional services were the primary drivers. Average inflation in terms of consumer price index (CPI) at 5.9 per cent during 2014-15 was significantly lower than 9.5 per cent of the previous year. The average wholesale price Index (WPI) inflation during 2014-15 at 2.0 per cent was significantly lower than the 6.0 per cent a year ago (RBI Annual Report 2014-15).

According to the 'World Insurance in 2014' report published by reinsurance major Swiss Re, the economic environment for insurance improved only marginally in 2014, as global real GDP rose 2.7% in 2014, the improvement was driven by the advanced markets, led by the UK. The Global life insurance premiums written were USD 2655 billion in 2014, up 4.3% after a decline of 1.8% in 2013. The recovery in the Non-life insurance sector continued in 2014 with global premiums up 2.90% to USD 1214 billion. The prospect for premium growth in Life Insurance Sector is expected to remain fairly strong in the advanced economies and to accelerate further in the emerging markets, while the outlook for the non-life insurance sector is mixed. (Swiss Re, Sigma No.4/2015).

V.2 Protection of Interests of Policyholders:

The basic framework for protection of policyholders interests is contained in the IRDA Regulations 2002. Since then, the insurance industry has witnessed numerous changes such as introduction of new type of products like micro insurance products, ULIP products, Health Insurance etc. Several new categories of distribution channels like Corporate Agents, Insurance Brokers, Web aggregators and Insurance Marketing Firms have been permitted to carryout insurance distribution activities. It has been observed that with increase in competition the need to bring more transparency in insurance sales process, strict enforcement of code of conduct by agents and intermediaries has arisen. The IRDA has set up Integrated Grievance Redressal Mechanism and Integrated Grievance Call Centre. In order to check the threat from spurious calls in the name of IRDAI, the IRDAI has been issuing several public notices, press releases, advertisements in leading newspapers, directions to insurance companies to caution public.

V.3 Growth of Insurance Companies:

The growth in insurance companies operating in India during 2005-06 and 2015-16 is depicted in the following table.

Growth of Insurance Companies Operating in India during 2005-2015

Category	Sector	Number of Companies in 2005	Number of Companies in 2015
Life Insurance	Public	1	1
	Private	15	23
Non-Life Insurance	Public	6	6
Re-Insurer	Public	1	1

Source: Annual Reports of IRDAI 2005-2015

Life Insurance Corporation of India continues to be the lone public sector life Insurance corporation. During the period 2005-2015 the number of private sector insurance companies increased from 15 to 23. There is no increase in the non-life insurance companies. General Insurance Corporation of India (GIC) has been the only Re-Insurer.

V.4 Insurance Penetration and Density:

The level of development of insurance sector in a country is known through the measure of insurance penetration and density. 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 penetrated from 2.71 per cent in 2001 to 5.20 per cent in 2009. However, since then, the level of penetration has been declining reaching 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 2015, the insurance density was USD 55.0. Following table reveals the trend in this regard. The insurance penetration is lowest at 3.9 per cent compared to the world average penetration (6.3 per cent).

Table Insurance Penetration and Density in India 2006-2015

Year	Life		Non-Life		Insurance	
	Density (USD)	Penetration	Density (USD)	Penetration	Density (USD)	Penetration
2006	33.2	4.1	5.2	0.6	35.4	4.8
2007	40.4	4	6.2	0.6	46.6	4.7
2008	41.2	4	6.2	0.6	47.4	4.6
2009	47.7	4.6	6.7	0.6	54.3	5.2
2010	55.7	4.4	8.7	0.71	64.4	5.1
2011	49	3.4	10	0.7	59	4.1
2012	42.7	3.17	10.5	0.78	53.2	3.96
2013	41	3.1	11	0.8	52	3.9
2014	44	2.6	11	0.7	55	3.3
2015	45	2.6	11.5	0.8	57	3.7

Source: Swiss Re, Sigma, Various Issues Annual Reports of IRDAI 2006-'15

V.6 Health Insurance as a class of Business:

Health insurance is gaining importance as one of the elements of health care. The insurance sector in India which initially covered certain areas like life, motor, marine insurance is gradually making rapid strides to cover the exclusive health risks contingent on human lives. Health insurance premiums have been registering a significant CAGR of 24.6 per cent in the preceding ten years. The Gross health insurance premium underwritten which was Rs.2321 crore in the year 2005-06 has increased to Rs.20,096 crore by 2014-15. It is projected that the non-life industry has the potential to reach Rs.4,80,000 crore of Gross Written Premium by 2025. With about 25% market share in the non-life industry at present, the health insurance

segment has a significant role in covering various sections of Indian population who are otherwise insurable, but not covered with any health insurance scheme. Recognizing health insurance as a class has been resulting in number of players entering this field as standalone health insurers. Incidentally, the increase in FDI Cap to 49%, coupled with recognizing health insurance as a special class, is likely to attract a number of players offering a range of health insurance solutions to the Indian Insuring public.

V.7 Insurance Laws (Amendment) Act, 2015:

The process of revision of the Insurance Laws which started with the recommendations of the 190th Report of Law commission in June 2004 culminated with the enactment Insurance Laws (Amendment) Act, 2015 effective from 26.12.2014, the date of promulgation of the Insurance Laws (Amendment) Ordinance 2014. The Amendment Act made amendments to the Insurance Act, 1938, the General Insurance Business (Nationalization) Act, 1972 and the Insurance Regulatory and Development Authority (IRDA) Act, 1999. Some of the major highlights of the amendments are: providing for enhancement of the foreign investment cap in an Indian Insurance Company from 26% to an explicitly composite limit of 49% with the safeguard of Indian ownership and control, empowering IRDAI to frame regulations on several aspects, allowing insurers to raise capital through new instruments, prohibiting multi-level marketing of insurance products to curtail the practice of miss-selling, making provision for absolute or conditional assignment of life insurance policies, prohibition for investment of funds outside India, providing for powers of adjudication for imposing penalty of certain violations.

Thus, the amendments have enabled the Insurance Laws to be aligned to the evolving insurance sector scenario and regulatory practices across the globe. The changes would facilitate IRDAI to create an operational framework for greater innovation, competition and transparency and to enable the insurance sector to achieve its full growth potential and contribute towards the overall growth of the economy and job creation.

VI. Conclusion:

In Indian Insurance sector there seems a significant variations among the insurance companies in perceiving and exploring the business through policies. The insurance companies are emphasizing more on operational CRM than the Analytical CRM. The lapsation rate of these insurance indicate that they are not exploiting the potential benefits of CRM. It is quite clear that even though the insurance penetration and density has been increasing in India, compared to the global positions it is low. In the claims settlement ratio, LIC fared well in terms of high settlement ratio compared to private insurers. Insurance industry contributes to the financial sector of an economy and also provides an important social security in India. The insurance industry has undergone a massive change over the last few years. In India both the life and non-life insurers have to improve their distribution techniques and develop products to change consumer behaviour.

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