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Analysis of life insurance sector in India

Dr.A.Suresh

Assistant Professor, School of Management, University arts and Science College, Subedari, Kakatiya University, Warangal

Email: suresh.amberi@gmail.com

Abstract: In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development at the same time strengthening the risk taking ability of the country. At the end of March 2017, there are 62 insurers operating in India, of which 24 are life insurers, 23 are general insurers, 6 are health insurers exclusively doing health insurance business and 9 are re-insurers including foreign reinsurers branches and Lloyd's India.

Key Words: Life insurance, Penetration, Density, Premium

1. INTRODUCTION:

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a precursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular. 1818 was the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 was the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies. In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies.

In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers. An Ordinance was issued on 19th January, **1956 nationalizing the Life Insurance sector** and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

The **history of general insurance dates** back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd was set up. framed a code of conduct for ensuring fair conduct and sound business practices. In 1972 with the passing of the General Insurance Business (Nationalization) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental This was the first company to transact all classes of general insurance business. 1957 was the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973. This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of reopening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of **R N Malhotra, former**

Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies are allowed to enter by floating Indian companies, preferably a joint venture with Indian partners. Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market. The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests. In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002. Today there are 24 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 23 life insurance companies operating in the country. The insurance sector is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

2. OBJECTIVES OF THE STUDY:

- To know the premium growth rate of Indian insurance industry
- The study the density and penetration of Indian insurance industry.
- To understand the appraisal of Indian insurance market

3. INDIAN INSURANCE IN THE GLOBAL SCENARIO:

Globally, the share of life insurance business in total premium was 55.55 per cent. However, the share of life insurance business for India was very high at 79.12 per cent while the share of non-life insurance business was small at 20.88 per cent.

In life insurance business, India is ranked 11 among the 88 countries, for which data is published by Swiss Re. India's share in global life insurance market was 2.08 per cent during 2014. However, during 2014, the life insurance premium in India increased by 1.0 per cent (inflation adjusted) when global life insurance premium increased by 4.3 per cent.

The Indian non-life insurance sector witnessed a growth of 4.8 per cent (inflation adjusted) during 2014. During the same period, the growth in global non-life premium was 2.9 per cent. However, the share of Indian non-life insurance premium in global non-life insurance premium was small at 0.69 per cent and India ranks 20th in global non-life insurance markets.

4. PREMIUM OF INSURANCE INDUSTRY:

Life insurance industry recorded a premium income of `418476.62 crore during 2016-17 as against `366943.23 crore in the previous financial year, registering a growth of 14.04 percent (11.84 percent growth in previous year). While private sector insurers posted 17.40 percent growth (13.64 percent growth in previous year) in their premium income, LIC recorded 12.78 percent growth (11.17 percent growth in previous year).

5. INSURANCE PENETRATION AND 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).

Table - 1. 1
Insurance penetration and density in India

moditation and density in more								
Year	Life		Non-Life		Industry			
	Density	Penetration	Density	Penetration	Density	Penetration		
	(USD)	(percentage)	(USD)	(percentage)	(USD)	(percentage)		
2001	9.1	2.15	2.4	0.56	11.5	2.7		
200	11.7	2.59	3	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	0.64	19.7	3.17		

2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.1	5.2	0.6	38.4	4.8
2007	40.4	4.1	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	43.20	3.3	11.50	0.72	54.7	3.44
2016	46.50	3.4	13.20	0.77	59.70	3.49

Note: 1. Insurance density is measured as ratio of premium (in USD) to total population.

2. Insurance penetration is measured as ratio of premium (in USD) to GDP (in USD).

Source: Swiss Re, Sigma, Various Issues.

The table 1 reflects that the insurance density of life insurance sector had gone up from USD 9.1 in 2001 to reach the peak at USD 55.7 in 2010. Since then it has exhibited a declining trend upto the year 2013. During the year 2016, the level of life insurance density was USD 46.5 (USD 44 in 2014 and USD 43.2 in 2015). The life insurance penetration had gone up from 2.15 percent in 2001 to 4.60 percent in 2009. Since then, it has exhibited a declining trend upto the year 2014. There was a slight increase in 2015 reaching 2.72 percent and remained unchanged in 2016.

Over the last 10 years, the penetration of non-life insurance sector in the country remained steady in the range of 0.5-0.8 per cent. However, its density has gone up from USD 2.4 in 2001 to USD 13.20 in 2016.

6. APPRAISAL OF INDIAN INSURANCE MARKET:

One of the parameters to measure the performance of the insurance sector in India is the number of registered companies as insurers in India. Table 2 depicts that at the end of March 2017, there are 62 insurers operating in India, of which 24 are life insurers, 23 are general insurers, 6 are health insurers exclusively doing health insurance business and 9 are re-insurers including foreign reinsurers branches and Lloyd's India. Of the 62 insurers presently in operation, eight are in the public sector and the remaining fifty four are in the private sector. Two specialized insurers, namely ECGC and AIC, one life insurer namely LIC of India (LIC), four in general insurance and one in reinsurance namely GIC are in public sector. 23 life insurers, 17 general insurers, 6 standalone health insurers and 8 reinsurers including foreign reinsurers branches and Lloyd's India are in private sector.

Table 2: Appraisal of Indian Insurance Market (As on 31st March, 2017)

Type of Insurer	Public Sector	Private Sector	Total
Life	1	23	24
General	6	17	23
Health	0	6	6
Re-insurers (including Foreign Reinsurers Branches/ Lloyd's India)	1	8	99
Total	8	54	62

Source: Annual report of IRDA, 2016-17

7. CONCLUSION:

Life insurance sector of India is growing at a faster rate. The rising insurance industry has given a platform for economic growth and employment. In the post liberalization period the private players played an important role in insurance sector. With many players in business, the insurance regulatory and development authority of India (IRDAI) came with innovative and constructive guidelines for both products and services. The study reveals the insurance industry has collected recorded a premium income and in India at the end of march 2017, there are 62 insurance players in the insurance industry. Indian insurance industry density and penetration is improving year to year but comparatively density percentage very less in the world wide. This industry is going to face more challenges due to change in economy and employment. Let us hope for the better improvement in Indian insurance sector.

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