

Growth of Indian Insurance Industry in the Era of Liberalisation

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Abstract

The insurance sector is one of the most promising sectors in India. Overall premiums sustained an average growth rate of 10.62 per cent during the period after liberalization of the sector in 1999 till 2009. This was one of the most steady growth patterns witnessed amongst emerging economies in Asian as well as global insurance markets. Higher per capita income, domestic savings and availability of more instruments for parking surplus funds has been facilitating the growth in the activities of insurance sector in India. Indian insurance industry with the largest number of life insurance policies in force in the world, the penetration of insurance as a percentage of GDP stood at 5.2 per cent as of March 2009 as against 1.2 per cent in 2000. In the light of these developments in the insurance industry, this paper signifies the issues of growth of Indian insurance sector particularly in the post-liberalization era.

Key Words: *Insurance Penetration, Insurance Density, Per Capita Income, Domestic Savings, Gross Direct Premium, New Policies, Underwritten.*

1. Introduction

Insurance services play a pivotal role in generating revenue for the development of any economy. The insurance industry mobilizes large funds through the sale of insurance services to a large number of widespread individuals and organizations in

the global market. According to Dorfman, insurance can be defined in financial perspective and legal perspective. In financial perspective, insurance is a financial arrangement that redistributes the costs of unexpected losses. In legal perspective, insurance is a contractual arrangement whereby one party agrees to compensate another party for losses.

In India, business of insurance is divided into four classes: life insurance, fire insurance, marine insurance and miscellaneous insurance. Life insurers undertake the life insurance business; general insurers handle the rest. Life insurance business is nationalized in 1956 by taking over 245 private insurers. The Life Insurance Corporation of India (LIC) is the only public sector life insurer operating the life insurance business. The General Insurance Corporation (GIC) is established in 1972 by taking over the business of 107 insurers. The details of nationalization of insurance business in India are given in Table 1. GIC has four subsidiaries namely, National Insurance, Oriental Insurance, New India Insurance and United India Insurance. In addition, there are three more companies doing general insurance business in India, viz., Employees State Insurance Corporation, Deposit Insurance Corporation and Export Risk Insurance Corporation.

Table 1: Nationalization of Insurance Companies in India

Name of the Company	Year of Establishment	Head office
Life Insurance Corporation of India	1956	Bombay
General Insurance Corporation:		
i. National Insurance	1972	Calcutta
ii. Oriental Insurance	1972	New Delhi
iii. New India Assurance	1972	New Delhi
iv. United India Assurance	1972	Madras
Employee State Insurance Corporation	1948	New Delhi
Deposit Insurance Corporation	1962	New Delhi
New Delhi Export Risk Insurance Corporation	1957	Bombay

Source: Sharma. S. P., Organization of Indian Insurance, Allied Publications, Gwalior.

2. Issues of Impact of Liberalization on Indian Insurance Sector

After the nationalization, insurance business in India is completely under the state control of through two autonomous corporations – LIC and GIC. In order to liberalize the sector, the Insurance Regulatory and Development Authority (IRDA) Act 1999 bill was passed by the parliament in December 1999. IRDA follows the world pattern of keeping the life insurance and general insurance companies separate. In other words no composite insurance business is encouraged in the insurance market. However, under the new dispensation Indian insurance companies in private sector were permitted to operate in India with the

following conditions: a) Company is formed and registered under the Companies Act, 1956; b) The aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees, do not exceed 26%, paid up equity capital of such Indian insurance company; c) The company's sole purpose is to carry on life insurance business or general insurance business or reinsurance business. d) The minimum paid up equity capital for life or general insurance business is Rs.100 crores. e) The minimum paid up equity capital for carrying on reinsurance business has been prescribed as Rs.200 crores.

Table 2 : Registered Insurers in India as on March 2009

Type of business	Public Sector	Private Sector	Total
Life Insurance	1	21	22
General Insurance	6	15	21
Re-insurance	1	–	1
Total	8	36	44

* includes two specialized insurance companies – ECGC and AIC.

Source: IRDA Annual Report.

Today, the industry services the largest number of life insurance policies in the world. By the end of March 2009 there were 22 life insurance companies, 21 general insurance companies and 1 national re-insurer were operating in India. The details of number of public and private sector companies operating in India are shown given in Table 2. Of these 44 companies, 8 are in the public sector and the remaining thirty-six are private sector companies also registered with IRDA. GIC is operating as a public sector re-insurer in India.

The opening of the sector witnessed the introduction of a number of innovative services deserving the attention of the customers and possibly the Indian insurance market is one of the fastest growing markets. As on March 2009, around Rs.4,15,000 crore of assets are under the management of Indian insurance companies, which is almost double the size of the mutual funds industry in India. There

are 29lakhs agents and 3.2lakhs employees working in the insurance industry. Higher per capita income, domestic savings and availability of more instruments for parking surplus funds has been facilitating the growth in the activities of insurance sector in India.

Because of liberalization of the insurance sector and with the entry of new players, the Indian insurance market has become one of the fastest growing insurance markets in the world. Most of the private life insurance companies are joint ventures with recognized foreign players across the globe. The trends in registration of private insurers after the liberalization are given in Table 3. Some of the factors that support the possibilities for increase in the penetration of the Indian insurance market are the emerging socio-economic changes, increased wealth, education and awareness of insurance needs.

Table 3 : Private Insurance Companies Registered with IRDA during Post Liberalization Period.

Year	Private Insurer		Total
	Life	Non-life	
2000-01	5	4	9
2001-02	6	2	8
2002-03	1	2	3
2003-04	–	–	–
2004-05	1	–	1
2005-06	1	–	1
2006-07	1	1	2
2007-08	2	3	5
2008-09	4	3	7
Total	21	15	36

Source: Handbook of Indian Insurance Statistics.

3. Growth of the Insurance Sector in the Era of Liberalization

Growth of insurance markets are described using various key economic indicators as annual premiums, new policies underwritten (contract of insurance come in to force) by the insurers, the relative market share of life and non-life insurance markets, insurance penetration and in terms of insurance density.

Growth in Volume of Insurance Premiums

Volumes of insurance premiums are common indicators used to describe the insurance markets. The growth of life insurance market is described in such a way that as India has a huge middle class population of about 350 million people who can afford to invest in health, life, disability and pension insurance products. It is seen that only 20 per cent of the population

actually invest in life insurance schemes catering to the said products. The amount invested covers only 25per cent of their actual needs and capacities. Hence, Indian insurance market can be labeled as a practically untapped market, which in its core holds immense potential and scope for growth.

We can observe the fast growth of private players in the total premium collected during the period from 2001-02 to 2008-09 as shown in Table 4. After the liberalization of the sector the private players are increasing their market share enormously in terms of collection of total premiums. In the year 2001-02 the total premium collected by the private players is Rs 272.55 crore which is recorded 4124.31 per cent growth over the previous year, while the total industry growth rate is recorded at 43.54 per cent. This is indicated the market attractiveness of life insurance business immediately after the

Table 4: Gross Direct Premium* Underwritten by Life Insurers (Rs. in crore)

Year	Insurer		Private Sector Total	Growth Rate (%)	Total	Growth Rate (%)
	Public Sector Total	Growth Rate (%)				
2001-02	49821.91	42.79	272.55	4124.31	50094.46	43.54
2002-03	54628.49	9.65	1119.06	310.59	55747.55	11.28
2003-04	63533.43	16.30	3120.33	178.83	66653.75	19.56
2004-05	75127.29	18.25	7727.51	147.65	82854.80	24.31
2005-06	90792.22	20.85	15083.54	95.19	105875.76	27.78
2006-07	127822.84	40.79	28253.00	87.08	156075.84	47.38
2007-08	149789.99	17.19	51561.42	82.50	201351.41	29.01
2008-09	157288.04	5.01	64503.22	25.10	221791.26	10.15

* Premium collected in the financial year.

Source: Annual Reports of Insurance Regulatory and Development Authority, India.

one year of liberalization of the sector.

The total premium of the private life insurance players in 2003-04 is Rs.3,120.33 crore which is recorded a growth rate of 178.33 per cent and touched Rs.51,561.42 crore in 2007-08 with an average growth rate of 118.25 per cent per year during the said period. However, in the year 2008-09 the life insurance industry collected the total premium of Rs.2, 21,791.26 crore as against Rs.2, 01,351.41 crore in the previous financial year which is recorded a growth rate of 10.15 per cent. Out of the total Rs.2, 21,791.26 crore premium in 2008-09, Rs.90, 645.78 crore i.e., 40.87 per cent of the total premium was contributed from unit-linked products.

On the other side general insurance sector grew at a Compounded Annual Growth Rate (CAGR) of 15 per cent over the past six

years since 2007. As shown in Table 5, the private insurers recorded a growth rate of 6453.98 per cent during 2001-02. The comparatively lower growth rate for the public insurers needs to be seen in the light of their high base. The premium underwritten by ten private sector insurers in 2007-08 was Rs.10,991.89 crore as against Rs. 8,646.57 crore in 2006-07 exhibiting a growth of 27.12 per cent. The general insurance industry has added Rs. 2,918.27 crore in total premium during the year 2007-08 of which public insurers contributed Rs. 572.94 crore and the private insurers contributed Rs.2,345.32 crore. It can be observed that all the private insurers have reported increase in premiums during 2007-08. Besides, health insurance has also become one of the fastest growing segments in the non-life insurance industry; it has grown by 30 per cent during 2008-09.

Table 5: Gross Direct Premium* Underwritten by Non-Life Insurers (Rs in crore)

Year	Insurer		Private Sector Total	Growth Rate (%)	Total	Growth Rate (%)
	Public Sector Total	Growth Rate (%)				
2001-02	11,917.59	13.59	467.65	6453.98	12,385.24	17.97
2002-03	13,520.44	13.45	1,349.80	188.64	14,870.25	20.06
2003-04	14,284.65	5.65	2,257.83	67.27	16,542.49	11.25
2004-05	14,948.82	4.65	3,507.62	55.35	18,456.45	11.57
2005-06	15,976.44	6.87	5,362.66	52.89	21,339.10	15.62
2006-07	17,283.45	8.18	8,646.57	61.24	25,930.02	21.51
2007-08	17,813.71	3.07	10,991.89	27.12	28,805.60	11.09
2008-09	18,030.75	7.12	12,321.09	12.09	30,351.84	9.09

* Premium collected in the financial year.

Source: Annual Reports of Insurance Regulatory and Development Authority, India.

Growth of New Business of Insurers

In the year 2003-04, two years after the liberalization of the sector, the number of new policies (policies issued in the financial year) underwritten by the life insurers was

increased to 286.27lakh as against 253.70lakh in 2002-03 exhibited a growth of 12.83 per cent. LIC was recorded a negative growth rate of 11.09 per cent in the subsequent year 2004-05.

Table 6: New Policies Underwritten* by Life Insurers (No. of Policies)

Year	Insurer		Private Sector Total	Growth Rate (%)	Total	Growth Rate (%)
	Public Sector Total	Growth Rate (%)				
2002-03	24545580	86.75	825094	5.25	25370674	—
2003-04	26968069	9.87	1658847	101.05	28626916	12.83
2004-05	23978123	-11.09	2233075	34.62	26211198	-8.43
2005-06	31590707	31.75	3871410	73.37	35462117	35.29
2006-07	38229292	21.01	7922274	104.64	46151566	30.14
2007-08	37612599	-1.61	13261558	67.40	50874157	10.23
2008-09	35912667	-4.52	15010710	13.19	50923377	0.10

* Policies underwritten in the financial year. Note: 2002-03 taken as base year.

Source: Annual Reports of Insurance Regulatory and Development Authority, India.

As shown in Table 6, the overall growth rate of the industry in terms of new policies issued is always positive except in the year 2004-05. There is an increase in the share of direct selling in total individual new business. Private insurers procured 11.37 per cent of their new business through direct selling. The share of corporate agents in the new business premium procured by the private life insurers was 31.70 per cent in 2008-09. LIC did not procure any new business through direct selling. LIC has 97.34 per cent of the new business premium from individual agents.

In case of non-life insurers as shown in Table 7, the total number of policies issued by the general insurers in 2008-09 was 670.60lakh as against 572.50lakh in 2007-08 which is recorded 17.13 per cent growth over the

previous year. While there is a negative growth rate recorded in the non-life sector in the year 2003-04 and 2006-07. There is a negative growth of 5.47 per cent and 19.48 per cent recorded in the public sector in the consecutive years during 2005-06 and 2006-07, where as the private players recorded a growth rate of 73.92 per cent and 41.85 per cent respectively for the same period. However, there is a balanced growth among public and private sector non-life insurers was recorded during 2008-09.

Market Share of Insurers

Before the liberalization of insurance sector, LIC is the only company dealing with life insurance business. After opening of the sector to other private companies, all the world leaders of life insurance has started

Table 7: New Policies Underwritten* by Non-Life Insurers (No. of Policies)

Year	Insurer		Private Sector Total	Growth Rate (%)	Total	Growth Rate (%)
	Public Sector Total	Growth Rate (%)				
2002-03	41885005	86.15	1676907	4.85	43561912	—
2003-04	38427204	-8.26	3298827	96.72	41726031	-4.21
2004-05	42634047	16.15	5144755	55.96	49778802	19.29
2005-06	42193079	-5.47	8947516	73.92	51140595	2.73
2006-07	33972092	-19.48	12692053	41.85	46664145	-8.75
2007-08	38547040	13.47	18703219	47.36	57250259	22.69
2008-09	45137181	17.09	21922906	17.21	67060087	17.13

* Policies underwritten in the financial year.

Note: 2002-03 taken as base year.

Source: Annual Reports of Insurance Regulatory and Development Authority, India.

their operation in India. The opening of the sector to the private players has increased the competition to capture the market share. As shown in Table 8, the market share of life insurers during the period after liberalization of the sector, private players increased their market share from mere 0.54 per cent in 2001-02 to 29.08 per cent in the year 2008-

09. The foreign companies have offered good schemes to lure all types of Indian consumers but unfortunately failed to get the major share of market even after liberalization. Still the LIC is the biggest player in the Indian life insurance market with approximately 71 per cent of market share in 2008-09.

Table 8: Market Share of Life Insurers (%)

Year	Insurer	
	Public Sector	Private Sector
2001-02	99.46	0.54
2002-03	97.99	2.01
2003-04	95.29	4.71
2004-05	90.67	9.33
2005-06	85.75	14.25
2006-07	81.92	18.08
2007-08	74.39	25.61
2008-09	70.92	29.08

Source: Annual Reports of Insurance Regulatory and Development Authority, India.

However, private non-life insurers are gradually increasing their market share over the past few years since liberalization of the sector. As shown in Table 9, the private non-life insurer has a market share of 3.78 per cent in 2001-02 increased to 40.59 percent in the year 2008-09.

Table 9: Market Share of Non-Life Insurers (%)

Year	Insurer	
	Public Sector	Private Sector
2001-02	96.22	3.78
2002-03	90.92	9.08
2003-04	86.35	13.65
2004-05	80.99	19.01
2005-06	73.66	26.34
2006-07	65.28	34.72
2007-08	60.49	39.51
2008-09	59.41	40.59

Source: Annual Reports of Insurance Regulatory and Development Authority, India.

Among the public sector non-life insurers, New India Insurance has the largest market share of 18.97 per cent in 2007-08 followed by oriental insurance with 13.69 per cent, national insurance with 14.40 per cent, oriental insurance with 13.69 per cent and united India insurance has the market share of 13.44 per cent.

General insurance industry during the pre-liberalization period where GIC was the holding company of the four public sector units played an important role in drawing up and in placing the reinsurance programme of each insurance company. As a result the reinsurance programme of the entire market was placed as a single block. GIC organized pools for different classes of business such as fire, marine hull and inter-company cessions amongst companies to increase retention within the country.

Insurance Penetration and Insurance Density in India

Insurance markets can also be differentiated by insurance penetration which is defined as annual insurance premiums as a percentage of Gross Domestic Product (GDP). Some insurance markets are characterized by high levels of insurance penetration and therefore an active insurance market compares to GDP. Another insurance indicator discussed here is the insurance density which is defined as annual insurance premiums in per capita.

The growth rates of insurance penetration and insurance density in India are shown in Table 10 and Table 11 respectively. In India, insurance industry penetration recorded at 2.71 per cent in the year 2000-01 of which life insurance recorded 2.15 per cent and non-life insurance recorded 0.56 per cent. These levels of penetration in life insurance sector reached to 4.60 per cent in life and 0.60 per cent by the end of the year 2008-09.

As per the preliminary estimates of Reserve

Table 10: Insurance Penetration^{*} In India after the Liberalization

Year [#]	Insurer		Total
	Life	Non-life	
2000-2001	2.15	0.56	2.71
2001-2002	2.59	0.67	3.26
2002-2003	2.26	0.62	2.88
2003-2004	2.53	0.64	3.17
2004-2005	2.53	0.61	3.14
2005-2006	4.10	0.60	4.80
2006-2007	4.00	0.60	4.70
2007-2008	4.00	0.60	4.60
2008-2009	4.60	0.60	5.20

^{*} Insurance penetration is measured as ratio of percentage of premium in USD to GDP.

[#] Data Relates to Financial Year.

Source: Sigma Volumes of Swiss Re, Economic Research and Consulting.

Table 11: Insurance Density^{*} in India after the Liberalization

Year [#]	Insurer		Total
	Life	Non-life	
2000-2001	9.1	2.4	11.5
2001-2002	11.7	3.0	14.7
2002-2003	12.9	3.5	16.4
2003-2004	19.7	15.7	4.0
2004-2005	18.3	4.4	22.7
2005-2006	33.2	5.2	38.4
2006-2007	40.4	6.2	46.6
2007-2008	41.2	6.2	47.4
2008-2009	47.7	6.7	54.3

^{*} Insurance density is measured as ratio of premium in US Dollar to total population.

[#] Data pertains to financial year.

Source: Sigma Volumes of Swiss Re, Economic Research and Consulting.

Bank of India (RBI), the net financial saving of the household sector in 2008-09 is 10.9 per cent of GDP at current market prices, is lower than 11.5 per cent in 2007-08. Decline in the household investments in shares and debentures were the main factor responsible for the lower household financial saving in 2008-09. The inflation environment also remained highly volatile during 2008-09; Whole Sale Price Index (WPI) inflation rose to a high of 12.9 per cent in August 2008 and sharply declined thereafter and recorded below 1 per cent by the end March 2009. Hence, as GDP per capita rises, it is expected that individuals will purchase more insurance. According to Swiss Re Economic Research and Consulting, Sigma 2/2010 report on "World Insurance in 2009", insurance penetration in India is currently about 5.2 per cent of its GDP.

Conclusion

The Indian insurance industry has witnessed tremendous growth in the presence of a fairly large number of insurers both in life and non-life segment. While the world is eyeing India for growth and expansion, Indian companies are becoming

increasingly world class. There may be room for many more players in a large underinsured market like India with a population of over one billion. Insurance companies will vie with each other to capture market share through better pricing and client segmentation. The market share was distributed among the private players. A well-regulated insurance industry which moves with the times by offering its customers tailor-made products to satisfy their financial needs is, therefore, essential if we desire to progress towards a worry-free future. With life insurance penetration of being just 4.6% and general insurance penetration of 0.60% by 2009, the opportunities in the Indian market place is immense. The next five years will be challenging but those that can build scale and market share will survive and prosper.

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