

A PAPER ON GROWTH OF INSURANCE SECTOR IN INDIAN ECONOMY

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ABSTRACT

The paper is streamlined to dissect the life Insurance sector in India and its growth in Competitive environment. India has seen economic growth with significant developments in length and breadth over a few decades. Economic liberalization in Insurance plays a significant role in growth and development of the sector. By allowing the private Insurance service providers has allowed India to tap its economic potentials. This has reflective effect in raising standard of living amidst Indian population because Life insurance policy is a social security instrument. Since 1999, IRDA the regulatory body acts as a controlling body for Insurance players in the risk management, by allowing the healthy competition amid the Insurers. Life Insurance market has a retrospective effect, led to improving investment climate by increase in the private players and promoting efficient blend of activities in the sector by adapting to the innovation in distribution of policies.

Keywords: Life Insurance, Insurance penetration, Insurance Density, Market Share, Insurance premium.

INTRODUCTION

Risk management is the identification, analysis and economic control of risks which can threaten the assets or earning capacity of an enterprise. Insurance management falls within the scope of risk management. Insurance is a contract between the insurer and the insured under which the insurer undertakes to compensate the insured for the loss arising from the risk insured against consideration, the insured agrees to pay a premium regularly. Insurance is a device by which the loss likely to be caused by uncertain event is spread over a number of persons who are exposed to it and

who propose to insure themselves against such an event. The essence of insurance is the elimination of risk and substitution of certainty for uncertainty. The traces of insurance were found in ancient period during twelfth century in the form of marine trade loans, with evidential arrangements found in Babylonia and India. The references were made in Rig-Veda, the sacred book of India, the codes of Hammurabi and Manu recognized the advisability of provision for sharing the future losses. Marine Insurance is the oldest form of Insurance; the Lloyds's coffee house gave an impetus to develop the marine insurance. Fire insurance developed and



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had been observed in Anglo-section Guild form by providing the personal assistance for fire victims. In the early sixteenth century, it originated in Germany, later got momentum in England in 1666 when fire losses were huge in number. In 1850, the Triton Insurance, Calcutta started working as general Insurer in India. In sixteenth century, Life insurance showed its first traces in England, In 1818, Europeans started first life insurance company in Bengal Presidency named as Orient Life Assurance company in India, later in 1871 Bombay evidenced Indian life office named as Bombay Mutual Life assurance Society which led to 245 insurance offices in India. In 1912 the Government of India started publishing returns of Insurance Companies in India and first statutory measure was taken by passing an act as Indian Life Assurance Companies Act 1912, the act was enacted to tenable to collect statistical information with life and non-life business in India around 1928. In 1950 The Insurance Amendment Act abolished principal agencies which were large in number led to nationalization of Insurance business. The 245 insurance companies had to stick to monopoly game in January 1956, by the then Finance minister of India, Sir Chintamanrao Deshmukh amalgamated these companies and Life Insurance Corporation began its functioning on 1st September 1956, with an act set up for it as Life Insurance Corporation Act, 1956 with a share capital of Rs. Five Crore. In 1968 amendments were made to the act to regulate investments and minimum solvency margins. After 1993, winds of economic liberalization started blowing with R.N. Malhotra committee recommendations to make the insurance sector free for private sector companies, later the parliament passed Insurance Regulatory

Development Authority Act 1999 and its was established. Since then the Indian Insurance market transitioned from monopolized state to liberalized market with private players in it. On 16th July 2013, Arvindmayaram committee approved to increase FDI limits in 12 sectors, Insurance sector raised to 49% from 26%. A well developed and evolved insurance sector is a boon for economic development as it provides long term funds for infrastructure development parallel strengthening the risk taking ability of the country.

Insurance Penetration and Density in India

The performance of Insurance sector is universally assessed by two parameters namely Insurance penetration and Insurance density, which reflects the level of development in Insurance sector.

Insurance Penetration: Penetration rate indicates the level of development in Insurance sector in a country. It is measured as the ratio of premium underwritten in a particular year to the Gross Domestic Product (GDP). The ratio had increased from 2.32 in 2000-2001 to 5.10 in 2010-2011, 4.10 per cent in 2011-2012 decline 3.96 per cent in 2012-2013. The Life insurance penetration increased from 1.77 per cent in 2000 to 4.10 per cent in 2006-2007, declined to 4 per cent in 2007-2008, 4.30 per cent in 2008-2009. The life insurance penetration had seen a decline from 4.60 in 2009-2010 to 4.40 in 2010-2011. The insurance penetration is impacted by several macro-economic factors like growth, inflation, Interest rates; small savings return and return from competing financial products offered by banks and mutual funds.

Insurance Density is calculated as the ratio of premium in USD to total population.

Insurance density has overall improved after liberalization as it is depicted in the table 1.1 given below. The ratio of insurance density in India is recorded to 55.7 USD in 2010, but a decline in coming years, which can be visualized that insurance sector has seen upward trend, but to analyzing in-depth is required too. Insurance Density in 2011-59 USD, 2012 USD 53.2, Life Insurance Density in 2011-12--3.40 percent, 49 USD, 2012-13--3.17per cent, 42.7 USD.

Table1.1-- Insurance Penetration and Density in India

Year	Life Density	Life Penetration	Industry Density	Industry Penetration
2001	9.1	2.15	11.5	2.71
2002	11.7	2.59	14.7	3.26
2003	12.9	2.26	16.4	2.88
2004	15.7	2.53	19.7	3.17
2005	18.3	2.53	22.7	3.14
2006	33.2	4.10	38.4	4.80
2007	40.4	4.00	46.6	4.70
2008	41.2	4.00	47.4	4.60
2009	47.7	4.60	54.3	5.20
2010	55.7	4.40	64.4	5.10
2011	49	3.40	59.9	4.10
2012	42.7	3.17	53.2	3.96

Source: IRDA, Density in USD, Penetration in %.

Objectives of the study

1. To study the growth of Life insurance sector in India
2. To compare and analyze the role of LIC and the private insurance players in the liberalized environment.

Research Methodology

This paper is based on descriptive and exploratory research with secondary sources of data

collection. The secondary data are collected from reference books, national and international journals, annual reports of IRDA and 24 life insurers.

Sample size

The paper has covered 24 registered Life Insurers till date, mentioned in Appendix I

Period of Study: Twelve years i.e., 2001 to 2013.

Analysis and Interpretation

Table-1.2-Registered Life Insurers in India

Sectors	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
LIC	01	01	01	01	01	01	01	01	01	01	01
Private	12	12	13	15	16	20	21	22	23	23	23
Total	13	13	14	16	17	21	22	23	24	24	24

As it is evident from table-1.2, till date IRDA has given licenses to 24 players which includes one public life insurer and 23 private life insurers. It is hay time for insurers to play a unique role with innovative covers and selling techniques with two-fold choice of pricing and improved customer focus for the growth and expansion of Indian Life insurance market. However, public sector being one continues to play dominant role by giving a tough competition to the private life insurers, the increase in private Insurers paved way to growth of the Insurance market size ably.

Table-1.3- Life Insurance offices

Insurers	2001	2002	2003	2004	2005	2006	2007	2008	2009
LIC	2186	2190	2191	2196	2197	2220	2301	2522	3030
Private	13	116	254	416	804	1645	3072	6391	8785
Total	2199	2306	2445	2612	3001	3865	5373	8913	11815

Insurers	2010	2011	2012	2013
LIC	3250	3371	3455	3526
Private	8768	8175	7712	6759
Total	12018	11546	11167	10286

Table 1.3 reports the increase in LIC offices from 2186 in 2001 to 3526 in 2013 as in case of private life insurers offices too shows an rising trend from 13 in 2001 to 6759 in 2013 which reflects that there is a stiff competition amid LIC and private life insurers in expansion of its businesses.

Table-1.4-New Policies Issued – Life Insurers (In Lakhs)

Insurers	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
LIC	239.78123 (-11.09)	315.90707 (31.75)	382.29292 (21.01)	376.12599 (-1.61)	359.12667 (-4.52)	388.63 (8.21)	370.38 (-4.7)	357.51 (-3.47)	367.82 (2.88)
Private	22.33075 (34.62)	38.71410 (73.37)	79.22274 (104.64)	132.61558 (67.40)	150.10710 (13.19)	143.62 (-4.32)	111.14 (-22.61)	84.42 (-24.04)	74.05 (-12.28)
Total	26211198	35462117	46151566	50874157	50923377	532.25	481.52	441.93	441.87

Table 1.4 gives the information of new policies issued by life insurers which depicts increase in policies issued steadily by LIC from 239.78 lakhs in 2004 to 367.82 lakhs in 2013, private life insurer too have shown an rising trend in policies issued. The steady growth in policies issued cautions insurers to be innovative in capturing the business.

Table-1.5- Paid- up capital of life insurers (Crores)

Sectors	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
LIC	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	100.00	100.00
Private	2229.13	3238.71	4347.81	5887.05	8119.41	12291.42	18248.04	21014.99	23656.85	24831.92	25418.72
Total	2234.13	3243.71	4352.81	5892.05	8124.41	12296.42	18253.04	21019.99	23661.85	24931.92	25518.72

Insurer	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
		Regular Premium							
LIC		64.59	64.89	47.77	38.77	43.13	56.73	64.58	58.08
Private		35.41	34.11	52.23	61.23	56.87	43.27	35.42	41.92
Total		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
		FirstYear Premium							
LIC	73.41	73.52	74.35	64.02	61.12	65.08	68.85	71.85	71.36
Private	26.59	26.48	25.65	35.98	38.88	34.92	31.15	28.15	28.64
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
		Single Premium							
LIC	87.02	84.45	87.04	86.99	90.44	92.19	81.26	80.58	83.92
Private	12.98	15.55	12.96	13.01	9.56	7.81	18.74	19.42	16.08
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
		Renewal Premium							
LIC	96.18	92.82	89.03	83.42	77.24	73.64	70.49	69.91	73.50
Private	3.82	7.18	10.97	16.58	22.76	26.36	29.51	30.09	26.50
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
		Final Premium							
LIC	90.67	85.75	81.92	74.39	70.92	70.10	69.78	70.68	72.70
Private	9.33	14.25	18.08	25.61	29.08	29.90	30.22	29.32	27.30
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 1.6 depicts the market share of life insurers in consideration of premium, where LIC showed a declining trend in collection of regular premium 2007-2010 whereas private life insurers had a rising trend in till 2009, first year premium, single premium, renewal premium and final premium collection of LIC and private life insurers had a stable trend. The table 1.6 reflects the market share of LIC has drastic fall in the market share from 90.67 per cent in 2004-2005 to 72.70 per cent in 2012-2013 whereas private life insurers are steadily

taking over the market share from 9.33 per cent in 2004-2005 to 27.30 per cent in 2012-2013.

CONCLUSION

The growth of Insurance sector in the form of Privatization is feared to affect the prospects of LIC, but the study shows that single public life insurer LIC still plays a dominant role by giving its toughest contribution to the competition. Private life insurers' market share has increased by use of new business channels of marketing by connecting to commercial banks for its

distribution of its products. IRDA being a regulatory controller has a good hold over the Insurers by its stringent regulations. LIC need to come out of its traditional manner of distribution of products and adaptation of technological know-how. Life Insurance will have a mainstay in the economy, the private life insurers are performing satisfactorily, and they continue to penetrate the Indian market utmost.

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SI No.	REG No.	Insurers	Date of Registration	Date of Commencement
01	138	AegonReligare Life Insurance Co. Ltd.	27-06-2008	2008-2009
02	122	Aviva Life Insurance Co. Ltd.	14-05-2002	2002-2003
03	116	Bajaj Allianz Life Insurance Co. Ltd	03-08-2001	2001-2002
04	130	Bharati AXA Life Insurance Co. Ltd	14-07-2006	2006-2007
05	109	Birla Sun Life Life Insurance Co. Ltd	31-01-2001	2000-2001
06	136	Canara HSBC OBC Life Insurance Co. Ltd	08-05-2008	2008-2009
07	140	DHFL Pramerica Life Insurance Co. Ltd	27-06-2008	2008-2009
08	147	Edelweiss Tokio Life Insurance Co. Ltd	10-05-2011	2011-2012
09	114	Exide Life InsuranceCompany Ltd.	02-08-2001	2001-2002
10	133	Future Generali Life Insurance Co. Ltd	04-09-2007	2007-2008
11	101	HDFC Standard Life Insurance Co. Ltd	23-10-2000	2000-2001
12	105	ICICI Prudential Life Insurance Co. Ltd	24-11-2000	2000-2001
13	135	IDBI Federal Life Insurance Co. Ltd	19-12-2007	2007-2008

14	143	IndiaFirst Life Insurance Co. Ltd	05-11-2009	2000-2010
15	107	Kotak Mahindra Old Mutual Life Insurance Co. Ltd	10-01-2001	2001-2002
16	512	Life Insurance Corporation of India	01-09-1956	1956-1957
17	104	Max Life Insurance Co. Ltd	15-11-2000	2000-2001
18	117	PNB MetLife India Insurance Co. Ltd	06-08-2001	2001-2002
19	121	Reliance Life Insurance Co. Ltd	03-01-2002	2001-2002
20	127	Sahara India Life Insurance Co. Ltd	06-02-2004	2004-2005
21	111	SBI Life Insurance Co. Ltd	29-03-2001	2001-2002
22	128	Shriram Life Insurance Co. Ltd	17-11-2005	2005-2006
23	142	Star Union Dai-Ichi Life Insurance Co. Ltd	09-07-2010	2010-2011

Source: IRDA, Reported as on 02-09-2013