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INSURANCE SECTOR AND ITS IMPACT ON INDIAN ECONOMY IN THE GLOBALIZATION

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Abstract

Insurance sector is functioning with two ways such as life insurance and non-life insurance /General Insurance. With a huge population and large untapped market, insurance happens to be a big opportunity in the country is Bull Run in the world. Life Insurance made its Debut in India well over 100 years ago.

The paper analyses growth and prospects of insurance sector including life and non-life insurance sector in India in the era of globalization and impact on Indian economy. State of Global Insurance is also interpreted while analyzing the penetration of the sector. Secondary source of information is used in the analysis of the paper.

Keywords : Insurance Sector, Indian Economy , Globalization

Introduction

Today, it is widely accepted as one of the most attractive financial instruments in an individual's portfolio that provides an assurance of security with attractive returns. India's insurance industry is regulated by the Insurance Act, 1938 and the Insurance Regulatory and Development Authority (IRDA) Act 1999. The government is considering the merging of the two acts into single insurance act to simplify insurance regulation. The average Indian now spends 5.4 times as much on life insurance as what s/he did seven years ago when the industry was yet to be opened up for private participation nearly 245 insurers.

State of World insurance

Global insurance market is estimated to be worth US $ 3424.71 billion in 2005. Global insurance sector recorded a nominal growth rate of 4.9 percent in 2006 and real growth rate of 2.9 percent for the same period. Penetration levels of insurance are high in the developed countries as compare to developing and under developed countries. In 2005, worldwide insurance premiums amounted to US $ 3426 billion, 57.6 percent accounted for life and rest 42.4 percent accounted for non life insurance segment while the life premiums was increased by 3.9 percent, non life premiums increased by 0.6 percent. High economic growth, moderate inflation, low interest rates and favorable stock markets in Europe, Japan and in the emerging markets contributed to the growth in the insurance industry. Size of the life and non life market in India is estimated to be Rs.127213.7 crores.

With the largest number of life insurance policies in force in the world, India's insurance sector accounted for 4.1 per cent of GDP in 2009-10, up from 1.2 per cent in 1999-2000, far ahead of China where insurance accounts for just 1.7 per cent of the GDP and even the US where insurance penetration stands at 4 per cent of the GDP. Total premiums collected were equivalent to 3.17 percent of GDP as compare to 9.15 percent in US, 7.78 percent in Europe, 6.83 percent in Asia and 4.8 percent in Africa

It can be said that the insurance penetration as ratio of premiums to GDP of the world nations' were varied basing on their economies. The insurance density is measured as ratio (in %) of premium to total population has also varying among the countries. India is 22.7 and the highest is recorded in UK by 4599.

Indian Insurance Sector- Market penetration of Insurers

According to RBI estimates, insurance sector now contributes 14.2 percent of the financial savings and contributes 2.4 percent to the GDP of the country. At present, there are 16 life and 15 non life insurance companies. In life insurance segment, there is one govt. owned insurer namely LIC and rest are private life insurers. In non life segment, there are 6 govt. insurers and 9 private sector insurers. LIC is the public sector giant in the life businesses. Four subsidiaries of GIC (General Insurance Corporation of India Ltd) which were spun of from the parent company namely the National Insurance Company Ltd, the New India Assurance Company Ltd, the Oriental Insurance Company Ltd and the United India Insurance Company Ltd, together with the Agricultural Insurance Company of India and Export Credit Guarantee Corporation Ltd are the six public sector companies in the non life sector.

Table -1 Number of important registered Insurers in India

Type of business	Public sector	Private sector	Total
Life insurance	1	15	16
General Insurance	6	9	15
Reinsurance	1	1	1
Total	8	24	32

The Union Government had opened up the insurance sector for private participation in 1999, also allowing the private companies to have foreign equity up to 26 per cent. 12 private sector companies have entered the life insurance business. Apart from the HDFC, which has foreign equity of 18.6percentage, all the other private companies have foreign equity of 26 per cent. In general insurance 8 private companies have entered, 6 of which have foreign equity of 26 per cent. Among the private players in general insurance, Reliance and Coramandel does not have any foreign equity.

2. List of the insurance companies in India

	Life Insurers
I	**Public Sector**
1	Life Insurance Corporation of India
II	**Private Sector**
1	Allianz Bajaj Life Insurance Company Limited
2	Birla Sun-Life Insurance Company Limited
3	HDFC Standard Life Insurance Co. Limited
4	ICICI Prudential Life Insurance Co. Limited
5	ING Vysya Life Insurance Company Limited
6	Max New York Life Insurance Co. Limited
7	MetLife Insurance Company Limited
8	Om Kotak Mahindra Life Insurance Co. Ltd.
9	SBI Life Insurance Company Limited
10	TATA AIG Life Insurance Company Limited
11	AMP Sanmar Assurance Company Limited
12	Dabur CGU Life Insurance Co. Pvt. Limited
III	**GENERAL INSURERS**
A	**Public Sector**
1	National Insurance Company Limited
2	New India Assurance Company Limited
3	Oriental Insurance Company Limited
4	United India Insurance Company Limited
B	**Private Sector**
1	Bajaj Allianz General Insurance Co. Limited
2	ICICI Lombard General Insurance Co. Ltd.

3	IFFCO-Tokio General Insurance Co. Ltd.
4	Reliance General Insurance Co. Limited
5	Royal Sundaram Alliance Insurance Co. Ltd.
6	TATA AIG General Insurance Co. Limited
7	Cholamandalam General Insurance Co. Ltd.
8	Export Credit Guarantee Corporation
9	HDFC Chubb General Insurance Co. Ltd.
IV	**Reinsurer**
1	General Insurance Corporation of India

a. Life insurance market- Life Insurance Corporation

The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. Some of the important milestones in the life insurance business in India are:

- 1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.
- 1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.
- 1938: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.
- 1956: 245 Indian and foreign insurers and provident societies taken over by the central government and nationalized. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.

Indians are now setting aside a larger chunk of their income on life insurance when measured as a percentage of GDP. They are allocating a small amount of their take-home to buy insurance products given their rising equated monthly installment (EMI) payments for home mortgage and other loans.

The insurance sector in India has completed six years in a liberalized environment with an average annual growth of 37 percent in the first premiums in the life segment and 15.7 percent in the non life segment, together with the largest number of life insurance policies in force, the potential of Indian industry is still very large. Despite of robust growth in the premiums, insurance penetration in India is still very low as compare to other countries globally. As said above, the total premiums collected were equivalent to 3.17 percent of GDP as compare to 9.15 percent in US, 7.78 percent in Europe, 6.83 percent in Asia and 4.8 percent in Africa.

Life insurance industry is capital intensive and insurers are required to inject capital at frequent intervals to achieve growth in premium income. Given the high rate of commissions payable in the first year, expenses towards setting up operations, training costs incurred towards developing the agency force, creating a niche for its products, achieving reasonable levels of persistency, providing for policy liabilities and maintaining the solvency margin, make it difficult for the insurers to earn profits in the initial five to seven years of their operations.

SBI Life Insurance Company is the first private sector company to turnaround with net profit of Rs.2.03 crores in 2005-06.

LIC dominates three quarters of life market; the nimble private sector is fast increasing its share of a rapidly growing pie in India,. Life insurance penetration in India - which was less than 1 per cent till 1990-91 - increased to 2.53 per cent in 2005, and to 3 per cent in 2006-07. The impetus for growth has come from both public and private insurers. Also, the number of players in this segment has also increased to 17 (16 in private sector), with Life Insurance Corporation (LIC) being the dominant player (market share of about 74 per cent). Led by the Life Insurance Corporation (LIC), the life insurance industry registered a growth of 110 per cent in fiscal 2006-07, taking the total business to US$ 19.2 billion from the previous year's US$ 9.1 billion. LIC got net profits by Rs 1313 crores in 2011-12. The life insurance market has grown rapidly over the past six years, with new business premiums growing at over 40 per cent per year owing to the entry of a host of new players with significant growth aspirations and capital commitments.

b. Post-liberalization/globalization period- life insurance

The post-liberalization period has been witness to tremendous growth in the insurance industry, more particularly so in the life segment. However, in 2008-09, on account of the financial meltdown, the life insurance segment saw a downward trend. The first-year premium, which is a measure of new business secured, underwritten by the life insurers during 2008-09 was Rs 87,006 crore as compared to Rs 93,713 crore in 2007-08, registering a negative growth of 7.2 per cent. In terms of linked and non-linked business during the year 2008-09, 50.9 per cent of the first-year premium was underwritten in the linked segment while 49.1 per cent was in the non-linked segment as against 75:25 in the previous year. The shift towards the traditional segment is significant during the year 2008-2009. The net profits of insurance companies were Rsc5974 crores in 2011-12.

Besides high level of household savings of the growing middle class, one of the main drivers of private sector growth is introduction of Unit Linked Insurance Plans (ULIPs). ULIPs have been possibly the single largest innovation in the field of life insurance.

c. Non life insurance market- General Insurance

The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British.

Some of the important milestones in the general insurance business in India are:

- 1907: The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance business.
- 1957: General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.
- 1968: The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.
- 1972: The General Insurance Business (Nationalisation) Act, 1972 nationalised the general insurance business in India with effect from 1st January 1973.
- 107 insurers amalgamated and grouped into four companies viz. the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd. GIC incorporated as a company.

The non life insurance market, dominated by six public sector players, has undergone sea change in the last five years. Since it was liberalized 2/3 of the market of the non life market is regulated by the tariffs. India is the 5th largest market in Asia by premium, following Japan, Korea, China and Taiwan.

The non life insurance industry reported premium income within India of Rs.20359 crores in 2005-06 as against 17480.6 crores during 2004-05, exhibiting growth of 16.5 percent. The market share of private insurers has increased to 26.34 percent from 20.07 percent in 2004-05. Nevertheless, the private sector players are gaining market share at the expense of the public sector companies by offering various innovative products.

The general insurance industry grew 12.63 per cent during 2007-08 driven a robust performances by private players. The 13 non-life insurers collected US$ 2.63 billion in premium during 2007-08, against US$ 2.04 billion in 2006-07. Consequently, total non-life premium collections totaled US$ 6.59 billion in 2007-08, against US$ 5.85 billion collected in 2006-07. The total premium was Rs 12558 crores in 2011-12 increased by 19.45 percent compared to 2010-11.

While the public sector could increase its premiums by just 3.94 per cent, 13 private sector players clocked premium growth of 28.85 per cent. Private sector players' market share has grown to about 40 per cent in FY 2008 as compared to the public sector's 60 per cent. And as India continues to revamp its infrastructure, the flow-on effects will ensure ongoing growth of Commercial insurance.

The net profits of non-life insurer of public sector were Rs1152.48 cr. But it was minus level in case of private sector (Rs -1120.19 cr) in 2011-12.

Market Share – Redistribution of non-life insurance

Due to the effectiveness of private marketing strategies, the market share of public insurers has consistently declined. Given a faster growth rate, the market share of the private sector is catching that of the public sector and the two will likely converge over the medium term. In the past, private insurers had aggressively targeted the more profitable (and tariffed) corporate fire and engineering businesses by combining them with discounted offers on de-tariffed products, for example, personal accident & health, marine cargo and hulls. The inherent operational flexibility of the private players – such as through aggressive pricing -- has allowed them to capture a greater share of large corporate accounts. But such strong penetration of large corporate clients makes future growth in this segment more difficult.

The non-life insurers (excluding specialized institutions like the Export Credit Guarantee Corporation and Agriculture Insurance Corporation and the standalone health insurance companies) underwrote premium of Rs 30,352 crore in 2008-09 in India, as against Rs 27,824 crore in 2007-08.

Investment Profits

The general insurance companies have to follow overall investment policy as prescribed by IRDA (Insurance Regulatory body). IRDA guidelines require the appreciation in Equity investments (vis-à-vis the acquisition cost) to be parked in a separate Fair Value Change account, to be accounted in Profit and Loss account only on realization. The Fair Value Change account is thus an indicator of the additional realizable profits of the insurance companies.

Table- 2 Balance sheet of the public sector insurance companies

(Rs. cr)

Item	2005-06		2006-07		2007-08		2011-12
	Public sector	Private sector	Public sector	Private sector	Public sector	Private sector	Private sector

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Gross investment	53674.3	3448.2	53176.9	5534.4	62922.0	8105.2	5171639
Fair value change value	30692.1	64.8	26734.9	(2.37)	33920.9	(30.7)	3420945
Investment income	5610.2	269.7	5784.3	415.0	6247.5	742.1	742426

Source: IRDA

The above table clearly highlights the latent strength of the balance sheets of the public sector insurance companies and their ability to recompense the impact of unfavorable underwriting results through investment income. However, the recent slump in the stock markets also highlights the vulnerability of the profit margins of the public sector companies. The share of investment income was Rs 56.10.2 crore in 2005-06 and rose to Rs 6247.5 crore in 2007-2008 under public sector. It was Rs 742426 crores in 2011-12.

The similar trend has recorded in private sector also. It was recorded Rs. 269.7 crore and 742.1 crore during the said period.

FDI in insurance sector

The Government has embarked upon increasing the foreign direct investment (FDI) in the insurance sector to 49 per cent, at a time when the developed countries like USA, Japan and Europe are enmeshed in an unprecedented financial crisis and their giant insurance companies and banks are facing bankruptcy. The government's move to further liberalize and privatize the insurance sector will allow the foreign multinational insurance companies to have a greater access and control over domestic servings and grab the profitable public sector insurance

- The total life insurance premiums market in India could grow from Rs 16,8600 Crore (Nearly US$ 42.85 Billion, Rs 1 = US$ 0.0254146) in 2006-07 to Rs 1,230,000 Crore (Nearly US$ 312.6 Billion, Rs 1 = US$ 0.0254146) by 2010-11.

- The total non-life insurance premium is expected to increase at nearly 24.7 percentage for the period spanning from 2007-08 to 2010-11.it is ***25.37 per cent in 2011-12.***

- With the entry of several low cost airlines along with fleet expansions by existing ones and increasing corporate aircraft ownership, the Indian aviation insurance market is all set to boom in a big way in coming few years.

- The home insurance segment is set to achieve a 100 percentage growth as latest inclusion by financial institutions have made home insurance obligatory for housing loan approval.

- Health insurance is poised to become the second largest business for non-life insurers in the next three years after motor insurance.
  - A booming life insurance market has propelled the Indian life insurance agents into the top 10 country list in terms of membership to the Million Dollar Round

Government Initiatives

The Government has taken many proactive steps to give a boost to this sector."

Foreign direct investment up to 26 per cent is permitted under the automatic route subject to obtaining a license from the IRDA. IRDA has removed administered pricing mechanism, i.e. de-tariffing in respect of fire and engineering along with motor insurance of general insurance for premium, effective from 1 January, 2007. The control rates on fire, engineering and workmen's compensation insurance classes have been removed from 1 September, 2007.

Some state governments have also taken a dynamic role in this sector. The Government of Andhra Pradesh after piloting the 'Arogya Sri' health insurance scheme in three districts plans to issue health cards to 18 million BPL (below the poverty line) families. As a result, about 60 million of the State's 80 million people will have insurance cover. The Karnataka Government has partnered with the private sector to provide coverage at a low cost in the Yeshaswini Insurance scheme. Launched in 2002, the scheme provides coverage for major surgical operations, including those pertaining to pre-existing conditions, to Indian farmers who previously had no access to insurance. As a results *India's thriving insurance sector is all set to grow from Rs.500 billion to Rs.2 trillion ($50.7 billion) by 2010, says the Associated Chambers of Commerce and Industry of India (ASSOCHAM).* The main reasons for such a major growth would be the coming of private players and aggressive marketing. However, the insurance sector more or less, facing the problem of economic recession and caused to flections in its growth around the world.

Conclusions

With a huge population and large untapped market, insurance happens to be a big opportunity in the country is Bull Run along with the world. With the largest number of life insurance policies in force in the world, India's insurance sector accounted for 4.1 per cent, China where insurance accounts for just 1.7 per cent, and even the US where insurance penetration stands at 4 per cent of their GDP. The public insurance and pension was not affected by the recession because their reign was not in the hands of any American country despite the fact that public pension worth two trillion dollar was wiped off from the market. But the proposed move of Pension Regulatory Fund Development bill (PFRD) would have brought this situation in the country as well, had the central and State government employees not opposed it. The government's move to further liberalize and privatize the insurance sector will allow the foreign multinational insurance companies to have a greater access and control over domestic servings and grab the profitable public sector insurance. The Government has embarked upon increasing the foreign direct investment (FDI) in the insurance sector to 49 per cent, at a time when the developed countries like USA, Japan and Europe are enmeshed in an unprecedented economic crisis and their giant insurance companies and banks are facing bankruptcy. Thus there is a scope to expand this sector. However, efficient supervising is essential to protect the customers as the mission of IRDA without fail to create belief on the foreign companies.

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