Growth of Insurance Sector in India – The New Horizons

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Abstract

Indian insurance is a flourishing industry, with several national and international players competing and growing at rapid rates. The easing of policy regulations, the Indian insurance sector been allowed to flourish, and as Indians become more familiar with different insurance products, this growth can only increase, with the period from 2012 - 2018 projected to be the 'Golden Age' for the Indian insurance industry. Tracing the developments in the Indian insurance sector reveals the 360-degree turn witnessed over a period of almost two centuries. There is a probability of a spurt in employment opportunities. Many of the universities and management institutes have already started or are contemplating new courses in insurance. Life insurance has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. A well-regulated life 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.

Keywords: Risk Management, IRDA act, Nationalization, Emerging trends, Entrepreneurship.

1. Introduction

Insurance may be described as a social device to reduce or eliminate risk of life and property. Under the plan of insurance, a large number of people associate themselves by sharing risk, attached to individual. The risk, which can be insured against include fire, the peril of sea, death, incident, & burglary. Any risk contingent upon these may be insured against at a premium commensurate with the risk involved. Insurance is actually a contract between two parties whereby one party called insurer undertakes in exchange for a fixed sum called premium to pay the other party happening of a certain event.
Insurance is a contract whereby, in return for the payment of premium by the insured, the insurers pay the financial losses suffered by the insured as a result of the occurrence of unforeseen events. With the help of Insurance, large number of people exposed to a similar risk makes contributions to a common fund out of which the losses suffered by the unfortunate few, due to accidental events, are made good.

Insurance is basically risk management device. The losses to assets resulting from natural calamities like fire, flood, earthquake, accident etc. are met out of the common pool contributed by large number of persons who are exposed to similar risks. This contribution of many is used to pay the losses suffered by unfortunate few. However the basic principle is that losses should occur as a result of natural calamities or unexpected events which are beyond the human control. Secondly insured person should not make any gains out of insurance.

It is natural to think of insurance of physical assets such as motor car insurance or fire insurance but often be forget that creator all these assets is the human being whose effort have gone along way in building up to assets. In that scene human life is a unique income generating assets. Unlike physical assets which decreases with the passage of time. The individual become more experience and mature as he advances in age. This raises his earnings capacity and the purpose of life insurance is to protect the income to individual and provide financial security to his family which is dependent of his income in the event of his pre mature death. The individual also himself also needs financial security for the old age or on his becoming permanently disabled when his income will stop. Insurance also has an element of saving in certain cases.

2. The Evaluation of Insurance Industry in India:

Insurance in its modern form is a western concept. The Indian insurance industry is as old as it is insurance other part of the world. Although life insurance business has been taking shape for the last 300years, it came to India with the arrival of Europeans. First Life Insurance Company was established insurance 1818 as Oriental Insurance, mainly to provide for widows of Europeans. The companies that follow mainly catered to Europeans and charged extra premium on Indian Lives.

The first insurance company insuring Indian Lives at standard rates was Bombay Mutual Life Insurance Company which was formed insurance 1870. This was also the year when 1st insurance act was passed by the British Parliament; the years subsequent to the Swadeshi movement saw the emergence of several insurance companies. At the end of the year 1995 there were 245 insurance companies All the insurance companies were nationalized insurance 1965 and brought under one umbrella. Life Insurance Corporation of India (LIC), which was enjoyed a monopoly of the life insurance business until near the end of 2000. By enacting the IRDA act 1999. The Government of India effectively ended LIC’s monopoly and opened the door for private insurance companies Collaboration of Indian Companies with Foreign Companies.

2.1 Need for the Insurance

The original basic intention of life insurance is to provide for one’s family and perhaps others in the event of death. Originally, polices were to provide for short periods of time, covering temporary
risk situations, such as sea voyages. As life insurance became more established. It was realized what a useful tool it was in a number of situations, including:

- **Temporary needs threats**: The original purpose of Life Insurance remains an important element, namely providing for replacement of income on death etc.

- **Regular saving**: Providing one’s family and oneself, as a medium to long term exercise (through a series of regular payment of premiums). This has been become more relevant in recent times as people seek financial independence from their family.

- **Investment**: Put simply, the building up of saving while safeguarding it from ravages of inflation. Unlike regular saving products are traditionally lump is investments, where the individual makes are one time payment.

- **Retirement**: Provision for one’s on later years has become increasingly necessary. Especially in charging culture abs social environment, one can buy a suitable insurance policy which will provide periodical payments on one’s old age.

### 2.2 Future Scenario

Before looking insurance future prospectus of the insurance industry, we must take a look into its past history. The independent India started with private sector insurance companies. These companies were nationalized by the Union Govt. in 1965 to form a monopoly known as Life Insurance Corporation of India has being under public sector for over four decades till the Government opened the insurance sector for private companies in 2000.

When the insurance Industry was nationalized, it was consider a land mark and a milestone on the way to the socialistic pattern of society that India had chosen after independence. Nationalization has lent the industry solidity and growth which is unparalleled. Forever, along with these achievements there also grew feelings of Insensitivity to the needs of the market, traditions insurance adoption of modern practices to upgrades technical skills coupled with a scene of lethargy which probable led to a feeling amongst that the insurance industry was not fully responsive to customers needs.

### 3. Growth of Insurance Sector in India

The insurance sector in India has come into a full circle from being an open competitive market to nationalization and back to a liberalized market again. 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, when it was introduced for English Widows. Even till the end of the nineteenth century, Insurance Companies in India were mainly the overseas companies investing in the insurance works in India. An interesting fact here was that higher premiums were charged for Indian lives, as they were considered riskier for insurance cover.

Insurance is mainly of two types
- **LIFE INSURANCE**
- **GENERAL INSURANCE**
Table 1 Growth of Life Insurance some facts (May 2011)

<table>
<thead>
<tr>
<th></th>
<th>New Business Premium (In Rs crore)</th>
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<tbody>
<tr>
<td></td>
<td>2009-10</td>
</tr>
<tr>
<td>LIC</td>
<td>70,891</td>
</tr>
<tr>
<td>SBI Life</td>
<td>7,041</td>
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<tr>
<td>ICICI Prudential</td>
<td>6,334</td>
</tr>
<tr>
<td>Bajaj Allianz</td>
<td>4,451</td>
</tr>
<tr>
<td>HDFC Standard</td>
<td>3,261</td>
</tr>
</tbody>
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Source: Central Statistical Organization

Under life insurance the life of an individual is covered whereby an individual or his family is assured a particular amount. Life insurance covers only the financial losses and not the emotional losses. India General Insurance covers almost everything related to property, vehicle, cash, household goods, health and also one’s liability towards others. The basic difference of general insurance with the life insurance policy is that it offers protection against contingencies.

3.1 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.

3.2 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.

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. Today Insurance Companies in India have grown manifold. The insurance sector in India has shown immense growth potential. Even today a giant share of Indian population nearly 80% is not under life insurance coverage, let alone
health and non-life insurance policies. This clearly indicates the potential for insurance companies to grow their market in India.

In 1999, various reforms were suggested in the insurance industry in India. This has changed a lot of things for the insurance companies in India. These reforms were:

- Bringing down of the government’s stake holding to 50%
- Only the private companies with a minimum capital of Rs.100 crores should be allowed to enter the insurance sector.
- No insurance company can deal in both life and non-life insurance under the same business entity.
- Foreign Insurance Companies can enter India only in collaboration with domestic insurance companies
- Interest should be paid on delays of payments by the insurance companies in case of non settlement of insurance claims.
- And many more to bring greater freedom and a well-planned regulation to the insurance companies in India.

Though, the existing rule says that a foreign partner can hold 26% equity in an insurance company, a proposal to increase this limit to 49% is pending with the government. Since opening up of the insurance sector in 1999, foreign investments of Rs. 8.7 billion have poured into the Indian market and 22 private companies have been granted licenses.

4. **Emerging trends in Indian Insurance Sector**

India's insurance sector is zooming to show an unprecedented progressive growth of more than 200% by the period of 2012-15. The Associated Chambers of Commerce and Industry of India has clocked out the fact that during this period, private players in the industry will see a growth of about 140 per cent, owing to the adoption of the aggressive marketing techniques in comparison of the growth rate of 35 per cent-40 per cent achieved by the state owned insurance companies. The chamber is expected to poise the business of insurance to reach at Rs.2000 billions in coming years from the present level of Rs. 500 billion. With the result of adoption of the intense marketing strategies by the private players, the declination has been witnessed in respect of the share of the state owned insurance companies captured in the market.

The market share fallout has been noticed in context of such companies like GIC, LIC, which have come down to nearly 70 per cent in the past 4-5 years from the 97 per cent. The experts have forecasted the more severe competition in the insurance sector likely to be occurred in the near future. Till recently, insurance sector was majority driven by the government sector players but now many private sector multinational players have come into the picture. Like HDFC, ICICI, Kotak, Mahindra and Birla Sunlife. Insurance sector has been characterized as the booming sector of the Indian arena, which has shown the growth rate of more than 15 per cent to 20 per cent. Insurance in India is put under the federal subject and is governed by the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and by various other acts.
Market by 2015, particularly in developing countries like India, the IRDA is the major body, which is providing better opportunities for the private player in India. GIC & LIC's monopoly market approach is no more prevalent in India. The new market scenario for insurance is growing; no doubt it is a flying bird.

Change is the eternal law of nature. Everything is changing according to the need of the time. Economic growth and social development in present scenario is due to sudden change in industrial policy and economic planning. Globalization has been the basic mantra after 1991, so every one thinks of being global. Liberalization, privatization and globalization is the basic concept of success in all aspect of development. Competition is tough now due to globalization. Business has positioned the entire economy, and industrialists think about making things global. There are no stringent rules or regulations for making any business house or industry. Government gives more emphasis on export and entrepreneurship. This is a changing world. Everyone has to compete for better success. Marketing is the major concept for developing any type of business. After globalization, marketing has taken a new dimension and it is the most challenging task now. The new horizon of marketing in the field of finance and insurance in present scenario is a good sign of development.
5. Globalization - "The Dynamic Force"

Many people consider globalization nothing new - societies have been interconnected for years. The world has never experienced globalization at this level of intensity before, or the speed at which it is transforming and integrating societies.

Herman E. Daly, an analyst of Global Policy Forum, characterizes globalization as, "Global integration of many former national economies into global economy, mainly by free trade and free mobility, but also by easy or uncontrolled economic purposes." He further clarifies that globalization is not internationalization - globalization brings about a single, integrated, global economy, while internationalization is a federation of nations cooperating as sovereign units to advance the national interest of all members. Though globalization has become a broad heading for a multitude of global interactions, ranging from the expansion of cultural influences across borders to the enlargement of economic and business relations throughout the world, it has different dynamic force for different person. For the economist, globalization is essentially the emergence of a global market. For a historian, it is an epoch dominated by global capitalism. Sociologists see globalization as the celebration of diversity and the convergence of social preferences in matters of life style and social values. To the political scientist, it represents the gradual erosion of state sovereignty. But discipline specific studies explain only a part of the phenomenon.

From a multi-disciplinary angle, globalization may be treated as a phenomenon, a philosophy and a process, which affects human beings as profoundly as any previous event. Several factors have been responsible for this phenomenon. This study confines its attention to four growth-enhancing facets of globalization that have been among its key drivers, namely trade, finance, communication and transport.

Insurance is an integral part of national economy and a strong pillar of financial market. Therefore, waves of globalization have also deeply influenced the insurance market worldwide. Financial Market Globalization has also been strongly supported by Globalization of Insurance. Globalization brings about single, integrated global economy. Insurance being an integral part of financial service could not claim immunity to the impact of the globalization process and opened up to private and global player’s world over, including India. Many multinational corporations are new entering into the insurance sector which is now a booking sector in India. IRDA Act, 1999 marked the opening Act of the insurance sector to private participation and foreign investment. The globalization of
The insurance industry has been accelerating as mergers and acquisitions have continued to cross country borders. The insurance market is booming in India and taken a new horizon of marketing.

The experience after independence in insurance sector showed that the ultimate objective remained largely unfulfilled due to the relatively low spread of insurance in the country the efficient and quality functioning of the public sector insurance companies and the untapped potential for mobilizing long term financial resources to finance the growth of infrastructure, the government set up an insurance returns Committee under the chairmanship of R. N. Malhotra, to suggest reforms in the insurance sector including improving the functioning of the LIC, GIC and strengthening the regulatory system. The committee submitted its report to union finance minister recommending a phased program of liberalization and called for a private sector entry and restructuring of LIC and GIC. The subsequent government moved an insurance bill but it was not passed, the next government moved on insurance bill again which was referred back to a select committee of parliament afterwards the government introduced the insurance regulatory Development authority (IRDA) Bill in parliament with some changes in the original structure the government of India created history on private sector companies.

6. MNCs - "The New Path Maker"

After globalization, so many MNCs are the major path maker for economic growth. The world-class MNCs constantly pursued their strategy of gaining access to every promising market world over, which had sound growth potentialities, in order to expand their network and control over the respective local economies. The consequence was that some of the markets, particularly in developing countries like China and India, adopted some sort of self-protectionist mechanisms by imposing certain deliberate politico-legal restrictions in order to restrict the entry of capital goods of these MNCs into their markets.

Insurance being an integral part of financial service could not claim immunity to the impact of the globalization process and opened up to private and global players world over, including India. So many MNCs are now entering into the insurance sector which is now a booming sector.

6.1 New Horizons of Insurance Market after Globalization

After 1970, insurance sector has become more prosperous. For a long time, the two most important insurance players were LIC & GIC. Now so many MNCs have entered into the same sector like Bajaj Allianz, Aviva, Birla Sunlife, ICICI Prudential, etc. Insurance is now acting on two dimensions, i.e., the element of investment and the element of protection. The Economic Value Addition (EVA) has taken the major concern of the same business. Marketing after globalization has become:

- More customers oriented
- Mostly better service oriented
- More competitive.

Better satisfaction, more value addition and strategic development can help any insurance sector to sustain in the present era.

6.2 New Market Scenario & Insurance
Insurance market in present scenario though is a booming sector, but the market has changed from simpler to complex, less challenging to more challenging. Going domestic to international is a very difficult task. Understanding market synergy and cognisation of perception of customer in the insurance field is very difficult. The Regulatory Board like ‘IRDA’ is playing a very crucial role for the benefit of the insurance holder. The premium and interest rate can’t be violated for better profit and development. The market is becoming tougher gradually.

6.3 Progress of Indian life insurance industry in the post LPG era

In the post LPG period, the Life Insurance Industry of India witnessed a marvelous growth and touched its historical height. So many factors have collectively contributed to this remarkable achievement. In this tenure, the LIC of India introduced many phenomenal business strategies by way of offering colorful schemes and products. The reason for these kinds of extraordinary effect was only because of the stiff competition emerging by the private insurance players. The private insurance companies are offering plenty of new attractive schemes and products to get meaningful share in the insurance market. However, the LIC of India has the powerful network and it is launching attractive advertisements in the regular interval to create great awareness among the general public. Simultaneously, the private life insurance companies are also taking much pain to cover-up the major populations under their boundary, for that they are sponsoring series of effective awareness programs through many attractive advertisements. This healthy competition is motivating the general public to go in favor of more investments in insurance. While comparing the efficiency and progressiveness of life insurance business in pre and post LPG arena, the Indian Life Insurance Industries are achieving a magnificent growth.

6.4 Technology Trend in Insurance Market

- **Computerization:** Initially, in the late 1950’s the insurance companies used Unit Record Machines (Electro Magnetic Machines) to process data punched into cards. Computers were introduces in the mid 1960’s and by the 1980’s the Unit Phased Machines were phased out and the entire process was computerized. This brought about greater efficiency and quick service delivery.

- **Internet:** Today, the internet has completely changed the service delivery process. Internet is today used to even sell insurance policies. Internet is, in fact, proving to be one of the widely used distribution networks for selling insurance policies. Also internet is used for sending premium notices to policy holders through e-mails. Companies like LIC (www.licindia.com), ICICI (www.icicipruindia.com) all have websites from which people can get the information about their products, prices, various schemes, and lots of other information. People can also purchase the product through this website.

- **Electronic Clearance Service (ECS):** Almost all the big organizations today provide the ECS facility to its customers. A policy holder having an account in any bank which is a member of the local clearing house can opt for ECS debit to pay premiums. The advantage here is that once the option is exercised, the policy holder need not visit a branch for paying the premium or collecting the receipts. On the day indicated by the policy holder, the
premium amount will be directly debited to the bank account of the policyholder and the receipt will be issued by the designated branch office.

- **Call Centres and SMS services**: Almost all the insurance companies have their own call centres which cater to the phone based queries of the policyholders. This service is 24x7 and they have the Interactive Voice Response (IVR) systems at all the branches.

- **E-Business Insurance in India**: The Internet has played a vital role in transforming the business of the 21st century. Computers are now being used extensively for creating and storing data, information with the help of complex and sophisticated technological tools in every kind of business. This change having been widely accepted, the advantages are numerous such as fast processing improved. Efficiency, cost reduction among several other benefits. However, with every positive change, there is an evil attached and technology is no exception. In technical terms, an evil attached and technology is no exception. In technical terms, increased sophistications of technology brings with it, an increased factor of risk involved. The risk can be of various attributes, for example, the risk of data being lost due to a virus attack, the theft of important and confidential information and so on, which ultimately results in losses for the business entity. With this change in the business process, insurers have to devise new methods for assessing, underwriting and servicing claims for the so-called e-business insurance.

Insurers face challenges to ascertain risks, in order to quantify them because such risks don’t have any past data, which makes it all the more difficult for actuaries. Moreover, what financial impact a particular risk can have is very difficult to be determined. For example, if some hackers obtain credit card information of few customers, it’s a loss for banks, their credibility, customers and also their brand. Will an insurance policy cover all of this is million dollars question hence; the difficulty is to design a cover first of all, which really answers the needs of customers. But even after designing and pricing such products with difficulty, the challenge to underwrite and handle claims for such policies remains existent.

**7. Conclusion**

India with about 200 million middle class household shows a huge untapped potential for players in the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance sector in India has come to a position of very high potential and competitiveness in the market. Indians, have always seen life insurance as a tax saving device, are now suddenly turning to the private sector that are providing them new products and variety for their choice.

Competition will surely cause the market to grow beyond current rates, create a bigger "pie," and offer additional consumer choices through the introduction of new products, services, and price options. Yet, at the same time, public and private sector companies will be working together to ensure healthy growth and development of the sector. Challenges such as developing a common industry code of conduct, contributing to a common catastrophe reserve fund, and chalk out agreements between insurers to settle claims to the benefit of the consumer will require concerted effort from both sectors.
The opening up of the insurance sector saw the emergence of innovations introduced by private players, initially in terms of product offerings. The insurance industry, which till then had seen minimal product innovations, saw the advent of unit linked insurance products (ULIPs). Moreover, liberalization of the sector also saw the advent of over-the-counter and pre-underwritten products that are offered by banks to its customers. These are products with no underwriting that are cross-sold with home loans and the like. Innovations have also come about in the area of value added services as companies started providing value additions like online purchase of insurance policies, payment of premiums by credit cards and online tracking of net asset values (NAVs).

References


