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Insurance Sector in India

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Introduction:

Insurance happens to be a very big opportunity in India. The Insurance sector in India is governed by Insurance Act ,1938. Insurance in India covers both Public and Private sector organizations. Insurance is a means of protection from financial loss in which a party agrees to compensate another party in the event of a certain loss, damage,or injury. It is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance sector in India plays a dynamic role in the wellbeing of its economy. It substantially increases the opportunities for savings amongst the individuals, safeguards their future and helps the insurance sector form a massive pool of funds. With the help of these funds, the insurance sector highly contributes to the capital markets, thereby increasing large infrastructure developments in India.

The Indian Insurance Sector is basically divided into two categories – Life Insurance and Non-life Insurance. The Non-life Insurance sector is also termed as General Insurance. Both the Life Insurance and the Non-life Insurance is governed by the IRDAI (Insurance Regulatory and Development Authority of India).

The role of IRDA is to thoroughly monitor the entire insurance sector in India and also act like a custodian of all the insurance consumer rights. This is the reason all the insurers have to abide by the rules and regulations of the IRDAI.

The Insurance sector in India consists of total 57 insurance companies. Out of which 24 companies are the life insurance providers and the remaining 33 are non-life insurers. Out which there are seven public sector companies. Life insurance companies offer coverage to the life of the individuals, whereas the non-life insurance companies offer coverage with our day-to-day living like travel, health insurance, our car and bikes, and home insurance. Not only this, but the non-life insurance companies provide coverage for our industrial equipment's as well. Crop insurance for our farmers, gadget insurance for mobiles, pet insurance etc. are some more insurance products being made available by the general insurance companies in India.The life insurance companies have gained an investment prospectus in the recent times with an idea of providing insurance along with a growth of your savings. But, the general insurance companies remain reluctant to offer pure risk cover to the individuals. Insurance industry is one of the premium sectors experiencing upward growth. This upward growth of the insurance industry can be attributed to growing incomes and increasing awareness in the industry. In recent years the industry has been experiencing fierce competition among its peers which has led to new and innovative products within the industry. Foreign Direct Investment (FDI) in the industry under the automatic method is allowed up to 26% and licensing of the industry is monitored by the insurance regulator the Insurance Regulatory and Development Authority of India (IRDAI).

The Present Insurance Sector In India ;

Insurance penetration in India has increased steadily from 2.7% around the term of millennium to 4.2% in 2020. The Life insurance penetration in 2021 was 3.2% ,almost twice more than the emerging markets and slightly above the global average .

India is the fifth largest life insurance market in the world's emerging insurance markets, growing at a rate of 32-34% each year. So far as the industry goes, LIC, New India, National Insurance, United insurance and Oriental are the only government ruled entity that stands high both in the market share as well as their contribution to the Insurance sector in India. There are two specialized insurers – Agriculture Insurance Company Ltd catering to Crop Insurance and Export Credit Guarantee of India catering to Credit Insurance. Whereas, others are the private insurers (both life and general) who have done a joint venture with foreign insurance companies to start their insurance businesses in India.

Life Insurance Companies:

Private Sector Company

- Bajaj Allianz Life Insurance Co. Ltd.
- Bharti AXA Life Insurance Co. Ltd.
- Birla Sun Life Insurance Co. Ltd.
- Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd.
- DHFL Pramerica Life Insurance Co. Ltd.
- Exide Life Insurance Co. Ltd.
- HDFC Standard Life Insurance Co. Ltd.
- ICICI Prudential Life Insurance Co. Ltd.
- IDBI Federal Life Insurance Co. Ltd.
- IndiaFirst Life Insurance Co. Ltd
- Kotak Mahindra Old Mutual Life Insurance Ltd.
- Max Life Insurance Co. Ltd.
- PNB MetLife India Insurance Co. Ltd.
- Reliance Life Insurance Co.

General Insurance Companies:

Private Sector Companies

- Aditya Birla Health Insurance Co. Ltd.
- Bajaj Allianz General Insurance Co. Ltd.
- Bharti AXA General Insurance Co.Ltd.
- Future Generali India Insurance Co.Ltd.
- HDFC ERGO General Insurance Co. Ltd.
- ICICI Lombard General Insurance Co. Ltd.
- IFFCO-Tokio General Insurance Co. Ltd.
- Kotak General Insurance Co. Ltd.
- L&T General Insurance Co. Ltd.
- Liberty Videocon General Insurance Co. Ltd.
- Magma HDI General Insurance Co. Ltd.
- Raheja QBE General Insurance Co. Ltd.
- Reliance General Insurance Co. Ltd.
- SBI General Insurance Co. Ltd.
- TATA AIG General Insurance Co

Health Insurance Companies

- Apollo Munich Health Insurance Co.Ltd.
- Star Health Allied Insurance Co. Ltd.
- Max Bupa Health Insurance Co. Ltd.
- Religare Health Insurance Co. Ltd.
- Cigna TTK Health Insurance Co. Ltd.

This collaboration with the foreign markets has made the Insurance Sector in India only grow tremendously with a high current market share. India allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%, which was increased to 49% in 2014. IRDAI states – Insurance Laws (Amendment) Act, 2015 provides for enhancement of the Foreign Investment Cap in an Indian Insurance Company from 26% to an Explicitly Composite Limit of 49% with the safeguard of Indian Ownership and Control..

The Future of Insurance Industry in India :

The future looks promising for the life insurance industry in India. In FY23 [until oct 2022] , premiums from new businesses of life insaurance companies in India stood at US $ 25.3 billion . In October 2022 Life Insaurer's new business premiums grew to 15,920.13 crores, according to Life insaurance council data. Several changes in the regulatory framework have been proposed which may transform the way the industry conducts its business and engages with customers.

The general insurance industry is expected to increase by 7-9% in terms of gross direct premium income in FY22, backed by healthy growth from the health and motor segments. Demographic factors such as the growing middle class, young insurable population and retirement planning will support the growth of the Indian life insurance segment.

Though LIC continues to dominate the Insurance sector in India, the introduction of the new private insurers will see a vibrant expansion and growth of both life and non-life sectors in 2017.Since the domestic economy cannot grow drastically, the insurance sector in India is controlled for a strong growth.With the increase in income and exponential growth of purchasing power as well as household savings, the insurance sector in India would introduce emerging trends like product innovation, multi-distribution, better claims management and regulatory trends in the Indian market.

The government also strives hard to provide insurance to individuals in a below poverty line by introducing schemes like the

- Pradhan Mantri Suraksha Bima Yojana (PMSBY),
- Rashtriya Swasthya Bima Yojana (RSBY) and
- Pradhan Mantri Jeevan Jyoti Bima Yojana

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(PMJJBY).

Introduction of these schemes would help the lower and lower-middle income categories to utilize the new policies with lower premiums in India.

The history of insurance is rooted within the story of mankind. The same instinct that stimulate modern businessmen and gives them a sense of security against loss and disaster also existed in primitive men . Primitive men also sought to avert the evil consequences of fire, flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. The concept of insurance has moved through various situations and phases in its journey. With the passage of time many elements have been preserved or discarded, largely being a conceptualization from the recent past.

The Insurance Industry Challenges :

1. Using data to improve experiences

Using data to improve offerings and customer experience is not new for the insurance industry. But doing this well and consistently is a challenge. To use data for better customer experience companies need to leverage digital insurance solutions. The use of an agile cloud system and data analytics can help companies meet customer demands. Chatbots, mobile applications, and AI-generated quotes could be the best solution possible now.

2. Commoditization

Insurers are consistently trying to get new customers while retaining their present ones. Providing lower rates than their competitor is the best way to do that. But along with this modern consumer decides to purchase insurance based on how they are treated by the insurance company working with them. Commoditization is the process of treating someone as if they are a mere commodity. The "commoditization" of insurance that has received so much press is a misnomer. Insurance is not a commodity but a complex good.

This challenge can be overcome with the help of Artificial Intelligence and automated process which can provide a personalized yet fast customer experience. Digital insurance technologies also help to create unique products quickly.

3. Digitizing small businesses

Small businesses are the most profitable market in the insurance industry. Even though big insurance companies are aggressively trying to move into this market. But this can cause loss to companies who are already serving small commercials.

To maintain their customer base and expand the insurance companies serving small commercials should provide digital interactions and digitize underwriting and claims. Investing in employees and new talent can help them expand their existing business and acquire new customers.

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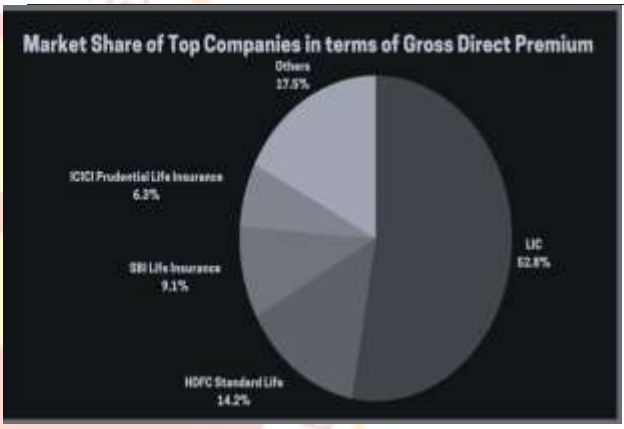

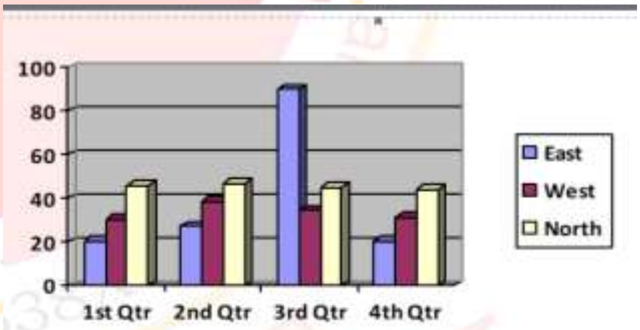

The Insurance Industry Market Size in India

Insurance is the best industry as during a recession, insurance is more stable than other fields. That's because no matter the economy ,people and businesses always need protection from risks. The insurance industry in India is a pool of insurance companies hedging insurance seekers against risk through the means of insurance contracts. The contract is an agreement between the insurer and the insured in which the payment of the former guarantee for an uncertain event against a premium paid by the insured regularly.

Insurance is a method of risk management to protect people and assets from uncertain losses. Life

Insurance is precisely planned to protect your legatee financially in case something unfortunate happens to you. For investors, insurance is seen as the slow-growing, safe sector when compared to other financial sectors.

However, there are 58 insurance companies in total among which 24 are life insurance companies. Most of them have international ties.

Under the life insurer segment, LIC is the sole public sector company while there are six public sector companies in the no-life insurer vertical. GIC is the sole national re-insurer in the industry. The chain has many players such as brokers, surveyors and third party administrators serving health insurance claims.

The five standalone private-sector health insurers witnessed a 46.6% jump in gross direct premium at Rs 1,556.89 crore from Rs 1,061.94 crore in June 2020. Two specialised PSU insurers– Agricultural Insurance Company of India and ECGC Ltd — reported a decline of 38.8% in combined gross direct premium during the month at Rs 210.87 crore from Rs 344.62 crore a year ago.

Cumulatively, the premium written by all the players during April-June 2021-22 was up 13.8% to Rs 44,434.96 crore as against Rs 39,054.82 crore in the same period of 2020-21.

Literature Review :

A literature review is conducted to generate an observation of a particular phenomenon and uncover what is known and the gaps related to that topic. The primary purpose of a literature review is to gain a broad background related to problems in conducting research on a particular topic, selecting a problem and purpose, developing a framework and formulating a lesson plan.

Available Literature between 1990- 2000

Pedro P. B. (1996) in his article “Competition Effects of Price Liberalization in Insurance” outlines the insurer’s decision making process, and their exercise of monopoly power. The author concluded with presenting a case study of the Portuguese auto-insurance market. Two distinct time spans were taken and a panel of data was used. 1982-1988 was characterized by price regulation, and 1989-1990, was characterized by pricing freedom. A clear change in the company’s market conduct was observed after the price liberalization event.

Mishra and Simita M. (2000) compared the position of the Indian insurance sector to European countries, in which life insurance accounted for 58% of the global direct premium and non-life comprised 42%. The study states that the need for insurance arises when economic activity increases, families become nuclear, kins gets geographically dispersed and individuals become more dependent on employment. The author analyzed the top ten largest insurance markets and how they are ranked by revenue in the year 1998.

Literature 2001 Onwards

Agarwal (2001) examined the role of information technology in the insurance sector in his study, and focused upon the requirements of providing effective services due to the entry of private firms. An insurance firm can utilize its services in many ways such as: customer service, investment management, claim management, relationship management etc. This article emphasizes that to gain overall boost in the size and revenue of the insurance market, it is understood that information technology must take on a vital role, to enable extensive penetration.

Pradeep G. and Sanjay B. (2002) analyzed and discussed the challenges with possible solution strategies, applicable to the insurance sector in India. Authors have made an attempt to identify how different brands can be positioned in the market and how business practice codes are given by IRDA to maintain standards. The research piece revealed that after liberalization, awareness of brands is 100% for LIC, 70% for ICICI Prudential awareness and 52% for HDFC.

Hitt and Croson (2004) pointed out, that there were three principal issues i.e. transparency, dis-intermediation and differential pricing that help in determining the transformation of retails financial services, including life insurance firms. The authors have explored, that financial services industries are gradually transformed by these three trends. Vaidyanathan R. (2007) discussed regulation and financial convergence in the insurance sector. In his article he mentioned, that there is no legislative framework for considering the compound nature of the working of the financial corporation. A new structure needs to be developed to monitor activities of insurance providers in a structured system.

Kirti D. (2009) focused on consumer beliefs and attitudes towards advertising media. He concluded that it is very important for marketers to generate advertisements that are believable and offer relevant information about the product. The message in the advertisements should focus on benefits and attributes, with required amount of creativity in it to get maximum results.

Rajendran R. and Natarajan B. (2009) highlighted that the business in India, the business outside India as well as the total business of LIC has always had an increasing trend. The collected and analyzed data proved that liberalization, privatization and globalization are exerting a positive influence on LIC and its performance.

M.C. Garg and Anju Verma (2010) in their paper titled "An Empirical Analysis of Marketing Mix in the Life Insurance Industry in India", analyzed the marketing mix in life insurance in India. The population for this research comprised of all employees of public and private life insurance companies in India. A sample of 95 employees was drawn on the basis of convenient sampling. Their prime objective was to study the nature,pattern and process of the marketing mix in life insurance companies in India. They concluded that various dimensions of the marketing mix where measured and analysed.

Manjit Singh and Rohit K. (2011 in their paper "Efficiency Analysis of the Public Sector General Insurance Companies: A Comparative Study of Pre- and Post-Reform Period", compared the competence of the Indian public sector general insurance firms during the pre- and post-reform periods.

Pamecha and Chhajer (2013) in their article discussed the paradigm changes that took place in the Life Insurance industry in India. These authors have elaborated the rationale behind the leadership position enjoyed by LIC in the market. The recent regulatory changes in the Life Insurance industry in India have also been highlighted in the article. Authors found that the global integration of financial markets resulted from de-regulating measures, explosion of technological information and financial innovation. Also the study emphasized, that liberalization and globalization have allowed the entry of foreign players in the insurance sector, providing a better array of services for the customers at competitive prices.

Mandeep K. and Dalwinder K. (2014), in their paper, "Customer Satisfaction towards Life Insurance in Punjab" identified the association between customer satisfaction and demographics of customers. Their study brought out seven factors through factor analysis, namely; services and company reputation, quick and timely services, customer convenience, additional facilities, loyalty of employees, efficient departments with disdisciplined employees, and service material and understanding of requirements.

Point of the present approach is unlike the conventional static DEA models. He has also presented a framework, by using a link variable, connecting the observed years and thereby creating a common benchmark.

Joy and Pratim (2016) explored that in the pre-reform era, the Life Insurance Corporation of India dominated the Indian life insurance market with a market share close to 100 %. But the situation drastically changed since the enactment of the IRDA Act in 1999. At the end of the FY 2012-13 the market share of LIC stood at around 73%, with the number of players in India's life insurance sector. The authors deliberated that; the reason for the decreased market share over this period could be attributed to the increasing competition prevailing in the country's life insurance sector. At the same time, the liberalization of the life insurance sector for private participation has eventually raised issues, about ensuring sound financial performance and solvency of the life insurance companies; besides safeguarding the interests of the policyholders.

Observations from Conducting the Literature Review:

Observation 1. Previous authors have focused more on the analysis of the industry and their operating efficiency regarding insurance companies in India. The intention is more tilted towards policy formation and business analysis.

Observation 2: Previous studies in this field are looking at the impact of liberalization on some particular aspects. For example, policy holders, number of customers, number of companies, and total business of the insurance sector in India etc. In general, the overall impact of liberalization on the insurance sector and LIC, is seeking the attention of researchers and so it will be rational to explore the same. The present study will act as bridge to address multiple dimensions under one umbrella, such as industry aspects, LIC related aspects and customer related aspects.

FAQ

What does the insurance industry do?

The insurance industry sells the financial product as a method of risk management to protect people and assets from uncertain losses. It pools funds from various insured entities to pay for the losses incurred. However, not all kinds of risks are protected through insurance. For a risk to be ensured it should meet certain characteristics.

- What type of industry is insurance?

Insurance is a financial service industry.

- What are the 4 types of insurance?

The 4 types of insurance include:

- Motor insurance
- Health insurance
- Travel insurance
- Home insurance

How large is the insurance industry?

As per the data from sectoral regulator IRDAI, the gross direct premiums of non-life insurers in India grew nearly 7% to Rs 14,809.27 crore in June this year. The general insurance industry is expected to increase by 7-9% in terms of gross direct premium income in FY22, backed by healthy growth from the health and motor segments.

- Which is the biggest insurance company in India?

Life Insurance Corporation of India (LIC) is the biggest and oldest insurance company in India.

- How many insurance companies are there in India?

There are 58 insurance companies in total among which 24 are life insurance companies and the other 34 are non-life insurance companies.

Conclusions :

LIC of India is the most comprehensive government life insaurance and investment corporation for insaurance coverage needs . It is often considered one of the best companies in India.

Earlier to 2000 LIC was not paying serious attention to develop its business. The reason was simple. It was the only Government body who was providing insurance to the public and hence LIC was enjoying its monopoly in the Indian market. Therefore, LIC has created huge surplus also in its annual reports. But somewhere between this monopoly and government guidelines, the need of an individual consumer was significantly unnoticed.

The financial strength of Life Insurance industry is Impressive .Compared to commercial banks and investment firms, their solvency record has been nearly faultless even during hard economic times. The results of this study have a number of significant implications. First, it is one of the few studies which attempt to investigate the empirical relationship between impact measurement and its four factors i.e. sources of competence, behavioural intentions, contemporary dynamics and overall satisfaction. The present study provides useful and comprehensiveness knowledge about pre and post situation of insurance sector in context to liberalization specifically focusing on LIC. The integration of these four constructs with impact measurement will help researchers and practitioners, to further grasp factors influencing the assessment of impact analysis in the industry. The results demonstrate a considerable explanatory and predictive power.

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