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A STUDY ON ANALYSIS OF THE INSURANCE INDUSTRY IN INDIA

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Abstract
Insurance in India covers both the public and private sector organizations. It is listed in the Constitution of India in the Seventh Schedule as a Union List subject, meaning it can only be legislated by the Central Government only.

The insurance sector has gone through a number of phases by allowing private companies to solicit insurance and also allowing foreign direct investment. India allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%, which was increased to 49% in 2014,[1] and further increased to 74% in May 2021.[2] Since the privatization in 2001, the largest life-insurance company in India, Life Insurance Corporation of India has held a monopoly until up to date but its market share slowly slipping to private giants like HDFC Life, ICICI Prudential Life Insurance, General Insurance Corporation of India and Exide Life Insurance.

Key words: Insurance, FDI, LIC, private companies.

Introduction

Indian Insurance market stands at $ 131 Bn as of FY22. Over last two decades it is expected to grow at a CAGR of 17% continuously in the future also. The insurance industry in India has 58 insurance companies, including 34 non-life insurers. It has witnessed an impressive growth rate over last two decades driven by the greater private sector participation and an impressive growth rate over the last two decades driven by the greater private sector participations.

List of Insurance Companies

- Life Insurance Companies
- General Insurance Companies
- Health Insurance Companies
- Reinsurance Companies

- **Private Life Insurers** are expected to grow their retail APE at a CAGR of over 17% between 2021-23, and new retail term premiums are expected to double in 5 years. The **Private Non-Life insurance** segment is forecasted to grow at 16% in FY22 and 14% in FY23. Standalone Health Insurers are expected to grow by over 25% in FY22 due to the increased focus on healthcare.
- The New Business Premium for Life Insurers has grown at a CAGR of 14% over FY14-20 led by the financialization of savings and new product launches, and the insurance industry size in India is expected to grow at 12.5% CAGR over the next decade 2020-30 led by specialized products such as protection and annuities.
- **Non-life insurer's** Collective gross direct premium underwritten for non-life insurance companies grew 22.99% y-o-y to INR 54,491.27 Cr for the first quarter this fiscal from INR 44,303.91 Cr for the same period last fiscal.

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By 2020 Indian Insurance is a US$280 billion industry. However, only 500 million people (36.23% of the total population of 1 billion) are covered under Mediclaim[[5]]. With more and more private companies in the sector, this situation is expected to grow more. ECGC, ESIC and AIC provide insurance services for niche markets. So, their scope is limited by legislation but enjoy some special powers. The majority of Western Countries have state run medical systems so have less need for medical insurance. In the UK, for example, the corporate cover of employees, when added to the individual purchase of coverage gives approximately 11–12% of the population on cover [[6]]- due largely to usage of the state financed National Health Service (NHS), whereas in developed nations with a more limited state system, like USA, about 92%[7] of the total population are covered under same insurance scheme.

Industry Scenario

India is ranked 11th in Global Insurance business. India's share in global insurance market was 1.72% during 2020 and total insurance premium volume in India increased by 0.1%

- India's insurance penetration was pegged at 4.2% in FY21 (from 3.76% in 2019-20), with life insurance penetration at 3.2% and non-life insurance penetration at 1%.
- The market share of private sector companies in the non-life insurance market rose from 15% in FY2004 to 49.3% in FY2021.
- In terms of the size of insurance industry in India, the share of life insurance in total premium in India is 75.24% and the share of non-life premium is 24.76% (2020).
- Life insurers recorded new business premium of INR 2.78 Tn ($38 Bn) in FY21 growing at 7.49% over the last year with private life insurers growing at 16.29%. Private Life Insurers account for 33.8% of the industry's new business premium (FY21) with the rest being accounted for by the Life Insurance Corporation of India (LIC).
- The Life Insurance Industry in India recorded a total premium of INR 5.73 Tn ($81.3 Bn) in FY20 witnessing a growth of 12.75% over the previous year and the private insurers accounted for 33.7% of total premium underwritten by the industry. New business premium contributed 45.25% of the total premium and witnessed a strong growth of 20.59% over FY19. 60% of the new business premium was derived from single premium with remaining 40% accounted for by first year premiums.
- The traditional (non-linked) products accounted for 85% of the total premium written in FY20 and share of ULIPs (linked products) in the total premium stood at 15%.
- During the last year (FY20), life insurers issued 288.47 lakh new individual policies, out of which LIC issued 75.9% of policies and the private life insurers issued 24.1% of policies.
- In FY21, non-life insurers (comprising general insurers, standalone health insurers and specialized insurers) recorded a 5.19% growth in gross direct premiums.
- Motor insurance accounted for 34.1% of the non-life insurance premiums earned, followed by health insurance at 29.5%, in FY21 Post-Covid rising demand for personal mobility space is leading to a shift in vehicle ownership patterns and may create an opportunity for motor insurers.
- Health insurance witnessed 13.3% growth in GDPI in FY21, while fire insurance and liability insurance observed 28.1% and 16.4% growth respectively in the same period.
- Government schemes and financial inclusion initiatives shall have helped in driving the adoption & penetration across all segments. The government's flagship initiative for crop insurance (PMFBY) has led to significant growth in the premium income for crop insurance, and now covers over 55 Mn farmer applications year-on-year. Even during the COVID-19 lockdown period, nearly 70 lakh farmers have benefitted from it, and claims worth INR 87.4 Bn ($1.2 Bn) were transferred to the beneficiaries.

- AB PM-JAY is an entitlement-based scheme under Ayushman Bharat and is fully funded by the Government. It is the largest health assurance scheme in the world and aims at providing a health cover of INR 500,000 ($6,900) per family per year for secondary and tertiary care hospitalization to over 107 Mn vulnerable families (approximately 500 Mn beneficiaries).
- The insurance regulator IRDAI has also undertaken various initiatives towards boosting the insurance penetration, such as permitting insurers to conduct video-based KYC, launching standardized insurance products and allowing insurers to offer rewards for low-risk behavior.
- Going forward, general insurance companies will be key beneficiaries of the opening-up of economies, especially with improved trade activity increasing demand for motor and health insurance. Strong growth in the automotive industry over the next decade is expected to boost the motor insurance market. Meanwhile, the life insurance sector will benefit from a steep yield curve, with low short-term rates and higher long-term rates.
- Digital issuance and online channels are expected to witness continued growth, the share of web aggregators within digital insurance has been constantly increasing and web-aggregators currently originate 30-40% of digital insurance.
- The total mortality protection gap in India stands at $16.5 Tn (as of 2019) with an estimated protection gap of 83% of total protection need. This offers a huge opportunity to life insurers with an estimated additional life premium opportunity of average $78.2 B n annually over 2020-30
- The retail protection sum assured is estimated to grow 8X by over 2020-30, implying 23% premium CAGR
- India is the 2nd largest InsurTech market in the APAC region, accounting for 35% of the $3.66 Bn capital invested in this region. The online individual insurance market opportunity is estimated to be $1.25 Bn by FY25 more than tripling from $365 Mn in FY20.
- The growth of the insurance market is being supported by important government initiatives, strong democratic factors, conducive regulatory environment, increased partnerships, product innovations, and vibrant distribution channels.
- The increase in the FDI in Insurance from 49% to 74% announced in the Union Budget (Feb’21) shall further help in driving increased penetration and coverage by enabling additional avenues for capital support required for the expansion of the insurance industry in India.
- The recent pandemic has emphasized the importance of healthcare on the economy, and health insurance would play a critical role in the effort to strengthen the healthcare ecosystem.

Review of Literature

Insurance in this current form has its history dating back to 1818, when Oriental Life Insurance Company was started by Anita Bhavsar in Kolkata to cater to the needs of European community. The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians with higher premiums being charged for the latter. In 1870, Bombay Mutual Life Assurance Society became the first Indian insurer.

At the dawn of the twentieth century, many insurance companies were founded. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were passed to regulate the insurance business. The Life Insurance Companies Act, 1912 made it necessary that the premium-rate tables and periodical valuations of companies should be certified by an actuary. However, the disparity still existed as discrimination between Indian and foreign companies. The oldest existing insurance company in India is the National Insurance Company, which was founded in 1906, and is still in business.

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The Government of India issued an Ordinance on 19 January 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The Life Insurance Corporation (LIC) absorbed 154 Indian, 16 non-Indian insurers and also 75 provident societies—245 Indian and foreign insurers in all. In 1972 with the General Insurance Business (Nationalization) Act was passed by the Indian Parliament, and consequently, General Insurance business was nationalized with effect from 1 January 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company on 22 November 1972 as a private company under Companies Act, 1956 in Bombay and received its Certificate for Commencement of Business on 1 January 1973.

The LIC had monopoly until the late 90s when the Insurance sector was reopened to the private sector. But, now there are 23 private life insurance companies in India.[4] Before that, the industry consisted of only two state insurers: Life Insurers (Life Insurance Corporation of India, LIC) and General Insurers (General Insurance Corporation of India, GIC). GIC had four subsidiary companies. With effect from December 2000, these subsidiaries have been de-linked from the parent company and were set up as independent insurance companies: Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited and United India Insurance Company.

Developments in Indian Insurance Industry

The insurance industry has undergone numerous transformations in terms of new developments, modified regulations, proposals for amendments and growth in 2022. These developments have opened new avenues of growth for the industry while ensuring that insurers stay relevant with changing times and the latest digital disruptions. The IRDAI is vigilant and progressive and is determined to achieve its mission of 'Insurance for all by 2047', with aggressive plans to address the industry's challenges.

In the global space, the Insurance sector is embracing cutting-edge technologies such as machine learning in the automation of claim management, personalized insurance pricing with the Internet of Things, and Telematics for car insurance. While in the case of India, according to the India Fintech Report 2022, Artificial Intelligence (AI) /Internet of Things (IoT)/ Machine Learning (ML), automated claims, web aggregations, e-commerce insurance marketplaces, Software/White Label/Application Programming Interface (APIs) and embedded insurance are being offered by various insurtech players in the market, given the on-going digital boost in the sector. The IRDAI's expectations from the sector hint at its aim to push technological advancements and innovation in the industry.

- **Permission for insurance companies to invest up to 30% of assets in BFSI sector:** With this reform in place, insurers can optimize their investment strategy, thereby giving potentially higher investment income in their profit and loss statement. The domino effect may be seen in more eased-out claim settlement policies, eventually translating into a better claim reimbursement experience for the end customers.
- **Proposal to reduce the INR 100cr. Minimum entry cap for insurers:** Easing capital requirements will help create a specialized or mono line for segments like motor and properties. Policyholders will be offered a wider array of competitively priced and technologically innovative products, and the insurance sector will witness greater competition, job creation and transparency. This can also give birth to micro- or specialized- insurance companies in the fields of agri, SME, travel, consumer electronics etc.

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- **Extension of the "Use & File" procedure by the IRDAI:** This norm carries the much-needed promise for the insurance sector, as it offers more scope for product innovation and customization, faster go-to-market speed, facilitates conducting a pilot in smaller groups and studies the adoption, thus overall influencing the penetration rate positively.
- **Proposal for the launch of the Bima Bharosa Platform:** The platform will be crucial from the customer's point of view, considering it will act as a single source of information for them. It will enable tracking an existing complaint and filing a new one, which will build trust between customers and insurers and increase data authenticity.
- **Pay as you drive amendment for motor insurance**: This reform allows customers to enjoy reduced car insurance premiums, along with the installation of a free telematics device to measure kilometers and report one's car's health. It also offers much-needed flexibility and customization options for the plan as per customers' preferences.
- **Proposal to launch Bima Sugam:** The proposed regulator-supervised platform will introduce standardization across the industry, bringing more transparency and helping reduce mis-selling and fraud risk instances. On the agent and insurer side, it will bolster their credibility and support early startups while testing the waters with innovative covers like OPD covers.
- **IRDAI's proposal to launch a composite insurance license:** The proposed composite Insurance license will bring numerous benefits to the industry, including permission for portfolio profitability – long-term sustainability of programs, better product creation, with a mix of health and life covers, better return on investments on tech and more.
- **Tie-up limit for intermediaries increases by 3x**: From now on, the potential and current policyholders can have access to a much broader choice while short listing the perfect policy for themselves. The new tie-up limit for CA is nine insurers, and IMF is six for each line of business of life, general and health insurance leading to not just huge variety but also more competitive price offerings for the end audience.
- **A testing environment for the Insurance companies**: Small-scale experiments will now be a possibility for a regulated sector like Insurance. As per the new guideline, The Regulatory sandbox will enable the testing of innovative products, technologies, etc., in a controlled regulatory setting with a maximum experimentation length of 36 months. The mid-way approval process will also enable a faster go-live of new innovative products in smaller batches rather than awaiting the final big release. The customer experience is undoubtedly on an upward move basis the mentioned.

In 2023, the insurance industry will need to continue the momentum with impactful transformations. Technology-enabled customization and transparency are expected to boost the need for insurance in India's tier 2 and tier 3 cities in the upcoming years. Distribution of policies through bundling also has the potential to become a major source for acknowledging customers' needs and boosting the sale of policies. According to various industry reports, cloud computing, data and analytics, automation of claims via telematics technology, and applied Artificial Intelligence are some of the key technological disruptions that are bound to impact the insurance industry in the near future significantly.

Conclusion

This millennium as seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted

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its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies are allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

In Conclusion, the Indian insurance sector is on path of growth, transformation and profitability. The government initiatives, along with the recent developments in the key players and trends in the industry. They have helped to change the face of the industry. And all these will continue to increase enrolment, increase penetration and increase awareness among consumers.

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