

CURRENT SCENARIO AND CHALLENGES OF INSURANCE BUSINESS IN INDIA.**R.C.Nagaraju****Ramesh Reddy.v.****1. Assistant Professor of Commerce ,Department of Commerce, University College of Arts,Tumkuru University, B,H.Road,TUMAKURU-572 103****2. Assistant Professor ofEconomics, Department of Economics, University College of Arts,Tumkuru University, B,H.Road,TUMAKURU-572 103****ABSTRACT**

Indian economy is in transition over the last ten years, owing to the initiation of major economic reforms affecting almost all sectors. The paradigm shift from a mixed economic organization to a market –oriented organization has exposed all sectors to an intense competition; insurance business is the most significant one among them. Insurance is an attractive option for investment. While most people recognize the risk hedging and tax saving potential of insurance, many are not aware of the advantages as an investment option as well. This paper attempts to make an analysis of current status, challenges of insurance business and suggests measures to counter the challenges faced by the insurance sector in India.

KEYWORDS: Insurance, Premium, Policy, Density, Penetration.**Introduction**

Insurance is an attractive option for investment. While most people recognize the risk hedging and tax saving potential of insurance, many are not aware of the advantages as an investment option as well. Insurance products yield more compared to regular investment options and this is besides the added incentives offered by insurers.

An insurance product cannot compare with other insurance investment schemes for the simple reason that it offers financial protection from risks, something that is missing in non-insurance products. Insurance is a unique investment avenue that delivers sound returns in addition to protection. Designed to safeguard against losses suffered due to any unforeseen events, insurance provides the investor with unique sense of security that no other form of investment provides

Insurance also provides a safeguard in the case of accidents or a drop in income after retirement. An accident or disability can be devastating; an insurance policy can lend timely support to the family in such times. It also comes as a great help when people retire.

CURRENT SCENARIO OF INSURANCE BUSINESS:**In the Global Scenario:**

Globally, the share of life insurance business in total premium was 56.2%. However; the share of life insurance business for India was very high at 79.6% while the share of non –life insurance business was small at 20.4%.

In life insurance business, India is ranked 11th among the 88 countries, for which data is published by Swiss Re. India's share in global life insurance market was 2.00% during 2013. However, during 2013, the life insurance premium in India declined by 0.5 % (inflation adjusted) when global insurance premium increased by 0.7%

The Indian non- life insurance sector witnessed a growth of 4.1 % (inflation adjusted) during 2013. During the same period, the growth in global non-life premium was 2.3 %. However, the share of Indian non-life premium in global non-life insurance premium was small at 0.66% and India ranks 21st in global non-life insurance markets.

In the Indian Context:**Insurance penetration and density in India:**

The measure of insurance penetration and density reflects the level of development of insurance sector in a country, while insurance penetration is measured as the percentage of insurance premium to GDP; insurance density is calculated as the ratio of premium to population (per capita premium)

During the first decade of insurance sector liberalization, the sector has reported consistent increase in insurance penetration from 2.71 % in 2001 to 5.2 % percent in 2009. However, since then, the level of penetration has been declining reaching 3.9% in 2013. A similar trend was observed in the level of insurance density which reached the maximum of USD 64.4 in the year 2010 from the level of USD 11.5 in 2001 during the year under review 2013, the insurance density was USD 52.0.

The insurance density of life insurance business has gone up from USD 9.1 IN 2001 to reach the peak at USD 55.7 IN 2010. During 2013, the level of life insurance density was only USD 41. Similarly, the life insurance penetration surged from 2.15 % in 2001 to 4.60 % in 2009. Since then, it has exhibited a declining trend reaching 3.1 % in 2013.

Over the last 10 years, the penetration of non-life insurance sector in the country remained steady in the range of 0.5-0.8 %. However, its density has gone up from USD 2.4 IN 2001 to USD 11.0 in 2013. Table 1 shows the insurance penetration and density in India.

| Year | Life | | Non-Life | | Industry | |
|------|------------------|--------------------|------------------|--------------------|------------------|--------------------|
| | Density (USD) | Penetration (%) | Density (USD) | Penetration (%) | Density (USD) | Penetration (%) |
| 2001 | 9.1 | 2.15 | 2.4 | 0.56 | 11.5 | 2.71 |
| 2002 | 11.7 | 2.59 | 3.0 | 0.67 | 14.7 | 3.26 |
| 2003 | 12.9 | 2.26 | 3.5 | 0.62 | 16.4 | 2.88 |
| 2004 | 15.7 | 2.53 | 4.0 | 0.64 | 19.7 | 3.17 |
| 2005 | 18.3 | 2.53 | 4.4 | 0.61 | 22.7 | 3.14 |
| 2006 | 33.2 | 4.10 | 5.2 | 0.60 | 38.4 | 4.80 |
| 2007 | 40.4 | 4.00 | 6.2 | 0.60 | 46.6 | 4.70 |
| 2008 | 41.2 | 4.00 | 6.2 | 0.60 | 47.4 | 4.60 |
| 2009 | 47.7 | 4.60 | 6.7 | 0.60 | 54.3 | 5.20 |
| 2010 | 55.7 | 4.40 | 8.7 | 0.71 | 64.4 | 5.10 |
| 2011 | 49.0 | 3.40 | 10.0 | 0.70 | 59.0 | 4.10 |
| 2012 | 42.7 | 3.17 | 10.5 | 0.78 | 53.2 | 3.96 |
| 2013 | 41.0 | 3.10 | 11.0 | 0.80 | 52.0 | 3.90 |

* Insurance density is measured as ratio of premium (in USD) to total population.

* Insurance penetration is measured as ratio of premium (in USD) to GDP (in USD).

* The data of insurance penetration is available with rounding off to one digit after decimal from 2006.

Source: Swiss Re, Sigma, Various issues.

Table 2 - Total Premium underwritten by life insurers

(Rs. In crores)

| Insurer | 2012-13 | 2013-14 |
|----------------|-----------------|------------------|
| LIC | 208803.58(2.92) | 236942.30(13.48) |
| Private Sector | 78398.91(-6.87) | 77340.90(-1.35) |
| Total | 287202.49(0.05) | 314283.20(9.43) |

Source: IRDA Annual Report 2013-14

From the Table 2, it can be seen that the premium undertaken in India and abroad by life insurers in 2013-14 is increased by 9.43% over the previous year.

Note: Figures in brackets indicate the growth (in per cent) over the previous year.

Table 3 – Registered Insurers in India

(As on 30th September, 2014)

| Type of business | Public Sector | Private Sector | Total |
|--------------------|---------------|----------------|-------|
| Life Insurance | 1 | 23 | 24 |
| Non-Life Insurance | 6 | 22 | 28 |
| Reinsurance | 1 | 0 | 1 |
| Total | 8 | 45 | 53 |

Source: IRDA Annual Report 2013-14

From the Table 3, it can be observed that as on 30th September, 2014 at the end of March 2014, there are 53 insurance companies operating in India; of which 24 are in the life insurance business and 28 are in non-life insurance business. In addition, GIC is the sole national reinsurer. Of the 53 companies presently in operation, eight are in the public sector – two are specialised insurers, namely ECGC and AIC, one in life insurance namely LIC, four in non-life insurance and one in reinsurance. The remaining forty five companies are in the private sector.

Table 4 - Market share of life insurers

(In per cent)

| Insurer | 2012-13 | 2013-14 |
|----------------|---------|---------|
| LIC | 72.70 | 75.39 |
| Private Sector | 27.30 | 24.61 |
| Total | 100.00 | 100.00 |

Source: IRDA Annual Report 2013-14

From the Table 4, it can be seen that on the basis of total premium income, the market share of LIC increased from 72.70 per cent in 2012-13 to 75.39 per cent in 2013-14. Accordingly, the market share of private insurers had declined from 27.30 per cent in 2012-13 to 24.61 per cent in 2013-14.

Table 5 - New policies issued: Life Insurers

(In lakh)

| Insurer | 2012-13 | 2013-14 |
|----------------|---------------|---------------|
| LIC | 367.82(2.88) | 345.12(-6.17) |
| Private Sector | 74.05(-12.28) | 63.60(-14.11) |
| Total | 441.87(-0.01) | 408.72(-7.50) |

Source: IRDA Annual Report 2013-14

From the Table5, it can be seen that during 2013-14, life insurers issued 408.72 lakh new policies, out of which LIC issued 345.12 lakh policies (84.44 per cent of total policies issued) and the private life insurers issued 63.60 lakh policies (15.56 per cent). While LIC registered a decline of 6.17 per cent (2.88 per cent growth in 2012-13) in the number of new policies issued against the previous year, the private sector insurers continued the previous year's experience of significant decline and reported a dip of 14.11 per cent (12.88 per cent decline in 2012-13) in the number of ne policies issued.

Table 6 - Paid Up Capital: Life Insurers

(In crores)

| Insurer | As at 31 st March 2013 | Additions during 2013-2014 | As at 31 st March 2014 |
|----------------|--------------------------------------|-------------------------------|--------------------------------------|
| LIC | 100.00 | 0.00 | 100.00 |
| Private Sector | 25418.73 | 419.78 | 25838.51 |
| TOTAL | 25518.73 | 419.78 | 25938.51 |

Source: IRDA Annual Report 2013-14

It can be observed from the above table that the total capital of the life insurance companies as on 31st March 2014 was Rs.25938.51 crores. During 2013-2014, an additional capital of Rs.419.78 crore was brought in by the private sector insurers

Table 7 - Gross Direct Premium Income In India: Non-Life Insurers

(Rs. In crores)

| Insurer | 2012-13 | 2013-14 |
|----------------|-----------------|-----------------|
| Public Sector | 35022.12(14.60) | 38599.71(10.21) |
| Private Sector | 27950.53(25.25) | 32010.30(14.52) |
| Total | 62972.65(19.10) | 70610.02(12.13) |

Source: IRDA Annual Report 2013-14

Note: Figures in brackets indicate growth in per cent over previous year.

Table 7 reveals that the non-life insurance industry had underwritten a total premium of Rs.70610 crore in India for the year 2013-14 as against Rs.62973 crore in 2012-13, registering a growth of 12.13 per cent as against an increase of 19.10 per cent recorded in the previous year. The public sector insurers exhibited growth in 2013-14 at 10.21 per cent; over the previous year's growth rate of 14.60 per cent. The private general insurers registered growth of 14.52 per cent, which is lower than 25.26 per cent achieved during the previous year.

Table 8 - New policies issued: Non-Life Insurers

(In lakh)

| Insurer | 2012-13 | 2013-14 |
|----------------|----------------|----------------|
| Public Sector | 689.68(30.59) | 600.06(-12.99) |
| Private Sector | 380.56(15.57) | 424.47(11.54) |
| Total | 1070.24(24.82) | 1024.52(-4.27) |

Source: IRDA Annual Report 2013-14

- Excluding Standalone Health Private and Specialised Insurers

Note: Figures in brackets indicate the growth (in per cent) over previous year.

Table 8 discloses that the non-life insurers underwrote 1,024.52 lakh policies in financial year 2013-14 against 1,070.24 lakh policies underwritten in financial year 2012-13. The public sector insurers witnessed considerable decline in the number of policies issued. They reported a 12.99 per cent decrease in number of policies issued during financial year 2013-14 as compared to a 30.59 per cent increase in financial year 2012-13. The private sector insurers reported a growth of 11.54 per cent in the number of policies issued in the financial year 2013-14 (15.57 per cent in the financial year 2012-13).

.Table 9 - Paid Up Capital: Non-Life Insurers

(In crores)

| Insurer | As at | Additions | As at |
|----------------|-----------------------------|------------------|-----------------------------|
| | 31 st March 2013 | during 2013-2014 | 31 st March 2014 |
| Public Sector | 600 | Nil | 600 |
| Private Sector | 5975 | 251 | 6226 |
| TOTAL | 6575 | 251 | 6826 |

Source: IRDA Annual Report 2013-14

Note: Excludes Share premium and Share application money.

Table 9 discloses that the total paid-up capital of non-life insurers as on 31st March, 2013 was Rs.9520 crore. During 2013-14, the non-life insurers added Rs. 720 crore to their equity capital base. Public sector insurers infused no further capital whereas specialized institution ECGC infused a further capital of Rs.100 crore . Private sector insurers infused further capital to the extent of Rs.251 crore.

Challenges for Insurance Business in India

The transition of the insurance industry from a public monopoly to a competitive environment now presents very interesting challenges, both to the new players and to the customer. The benchmark of success of organization is not only determined by the rate of return but also by the quality of corporate governance. So good corporate governance practices should be followed by the companies as well as by the regulator. Though LIC has done commendable work, there is still a great deal of scope for bringing in innovative products and distribution channels to tap insurance market. Currently the product-market relationship is dominated by personalized selling rendered by tied agents. So the agents should be able to understand the complexity to assess the requirement of the populace and then only advice on the appropriate policy, which suits, to the needs of the population. Also, companies will have to transform customer relationship management to the value-based client relationship. The CRM challenge will have the pyramid of three sub-challenges i.e. product development, pricing mechanism, and technology management. Insurance business is based on averages and spreading of risks. So, a flexible pricing structure for sustaining customer confidence and interest will be a challenging task before Indian issuers. The majority of insurance companies today are under tariff, that means insurance companies cannot price the product to suit the customer of customer group. The way to service customer is to segment the market and offer the correct product at the correct price to that market segment. There is a huge untapped potential in India, which needs to be targeted. The distribution channel is a medium to reach the masses in urban, semi-urban and rural areas. So, the insurance company should focus on pricing, distribution, risk management and investment decision-making.

Measures to Counter the Challenges of Insurance Business in India

- Insurance companies in India will have to develop appropriate channels to tap this huge market as the core of insurance business hinges on an efficient distribution.
- Direct marketing is one of the most successful channels of distribution in the developed economics. It is a great way to reach a large population. So the product should be sold through telemarketing or direct mail.
- In the insurance business, cost control and ability to serve a large number of customers are crucial issues. So, modern technology is to be adopted to handle both the services effectively.
- Today, customers are well-equipped with information, so insurance companies should reposition different products by changing customer attitudes.
- The actuary should be required to attend minimum number of seminars called continuous professional development courses for financial control of the organisation.
- **Conclusion**

From the above it can be concluded that the insurance business is growing at an annual rate of 21.9%. However the insurance penetration in the country is very poor. The insurance markets have witnessed a dynamic change which includes presence of a fair number of both life and non-life segment. Most of the private insurance companies have formed joint venture with recognised foreign players across the globe. To achieve success in the marketing of the insurance products, the entire business environment is required to be considered. The strategies are to be adopted based on the dynamics of the market trends. To be successful, a company must have quality people, innovative management, be able to employ technology effectively, besides having the right products and distribution channels.

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