A Study on Issues and Challenges in Insurance Industry in India

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Abstract-The potential and performance of the insurance sector is universally assessed with reference to two parameters, viz., insurance penetration and insurance density. These two are often used to determine the level of development of the insurance sector in a country. Insurance penetration is defined as the ratio of premium underwritten in a given year to the Gross Domestic Product (GDP). The insurance penetration in India, which surged consistently till 2016-17, has slipped since 2017-18 on account of slowdown in life insurance premium as compared to the growth rate of the Indian economy. Life insurance penetration had consistently gone up from 2.15 per cent in 2008 to 4.60 in 2016, before slipping to 4.40 per cent in 2017 and further slipping to 3.40 per cent in 2018.

Key Words; INSURANCE, PENETRATION, GDP, GROWTH AND ECONOMY

INTRODUCTION

THE INDIAN ECONOMY:

1. Against the backdrop of adverse macro-economic factors, the Indian economy measured in terms of Gross Domestic Product (GDP) registered a growth rate of 6.5 per cent in 2018-19, which is the lowest annual growth rate of last decade. Further, this growth rate also happened to be lower than even that of year 2015-16, the year when the financial crisis began. In that year, the Indian economy grew at 6.7 per cent. The hardening of interest rate, moderation in demand (both domestic and external), slowdown in consumption expenditure, especially in interest rate sensitive commodities, subdued business confidence and global economic uncertainty collectively contributed to the weakening of the Indian economy. While the slowdown in the economy remained across the board, the industrial sector appeared to be the worst hit. The sector reported a meagre growth rate of 2.6 per cent during 2018-19, as compared to 6.8 percent in the previous year. With this, the sector grew at an average growth rate of 6.3 per cent in the last five years (2014-15 to 2018-19). The slowdown in industrial production appeared to be almost across all sub-sectors.

2. The agricultural sector too grew at a substantially lower rate of 2.8 per cent in 2018-19, as compared to 7.0 per cent achieved in the previous year.

3. The services sector continued to grow at a faster rate in 2018-19. It witnessed a growth of 8.5 per cent (previous year 9.2 per cent). Amongst the various service sectors, the growth rate in the “financing, insurance, real estate and business” services stood at 9.6 per cent in 2018-19, as compared to 10.4 per cent of previous year. The average annual growth rate of this segment continued to be in double digit (10.7 per cent) during the period of past five years, viz. 2014-15 to 2018-19. The share, in terms of real GDP, of the services sector in the Indian economy continued to rise consistently. The share went up further to 66.8 per cent in 2018-19 (65.5 per cent in 2017-18), because of better performance of this sector in absolute as well as in relative (to agricultural and industrial sector) sense. Within the services sectors, the “financing, insurance, real estate and business” remains the largest component with 17.9 per cent share in the Indian economy. The same has increased gradually over the last few years, viz. 2014-15 (16.1 per cent), 2015-16 (16.9 per cent), 2016-17 (17.1 per cent) and 2017-18 (17.4 per cent).

GLOBAL ECONOMIC ENVIRONMENT

1. According to the latest World Economic Outlook (WEO) published by the International Monetary Fund (IMF), the world economy is projected to grow at the rate of 3.5 percent in the year 2019, which is lower when compared to the 5.3 per cent and 4.0 per cent growth achieved during 2017 and 2018 respectively. The slowdown in the global economy, which started in the advanced economies, mainly of

Europe, has spread to major emerging economies too including China, India and Brazil.

2. As per projections of the IMF, the euro area would continue to reel under recession in 2019 as a result of the sovereign debt crisis, problems in the banking sector and fi scal consolidation efforts of various governments. Due to recession in the European economy, the advanced economies as a group are expected to grow only at the rate of 1.5 per cent in 2019 and 2 per cent in 2013. Similarly, the real GDP growth in the emerging and developing economies is projected to slow down from 6.25 per cent in 2018 to 5.75 per cent in 2019.

3. Many policy initiatives are needed to ensure recovery of the global economy, says the IMF Report. In the short term, these include efforts to address the euro area crisis, a temperate approach to fiscal restraint in response to weaker activity, continuation of accommodative monetary policies and ample liquidity to the financial sector. In the long term, the most important policy initiatives include fundamental reforms in the financial sector, progress with fiscal consolidation including ambitious reform of entitlement programs, and structural reforms to boost potential output.

4. Many of the emerging & developing economies have had an unusually good run over the past decade, supported by rapid credit growth or high commodity prices. Though credit growth is a manifestation of financial deepening, it cannot continue to expand at its present pace without raising serious concerns about the quality of bank lending. Similarly, commodity prices cannot continue to grow at the elevated pace other than exhibiting short-term spikes related to geopolitical tensions. The key near-term challenge for emerging and developing economies is how to appropriately calibrate macroeconomic policies to address the significant downside risks from advanced economies while keeping in check overheating pressures from strong activity, high credit growth, volatile capital flows, still elevated commodity prices, and renewed risks to inflation and fiscal positions from energy prices.

INDIAN INSURANCE SECTOR:

1. After opening up of Insurance sectors, the capital requirements for starting a general or life insurance company is equity paid-up capital of Rs.100 crore and for starting a reinsurance company it is Rs.200 crore. The solvency margin requirement shall be highest of the following (a) Rs.50 crore (Rs.100 crore for reinsurer); or (b) a sum equivalent to 25% of the premium income; or (c) a sum equivalent to 30% of net incurred claims.

2. As at end-September 2019, there are fifty-two insurance companies operating in India; of which twenty four are in the life insurance business and twenty-seven are in non-life insurance business. In addition, General Insurance Corporation (GIC) is the sole national reinsurer. The life insurance industry recorded a premium income of `2, 87,072 crore during 2018-19 as against 2,91,639 crore in the previous financial year, registering a negative growth of 1.57 per cent. While private sector insurers posted 4.52 per cent decline (11.08 per cent growth in previous year) in their premium income, Life Insurance Corporation (LIC), the fully state owned insurance company, recorded 0.29 per cent decline (9.35 per cent growth in previous year), in its total premium underwritten. While the renewal premium accounted for 60.31 per cent (56.66 per cent in 2017-18) of the total premium received by the life insurers, first year premium contributed the remaining 39.69 per cent (43.34 per cent in 2017-18). During 2018-19, the growth in renewal premium was 4.77 per cent (6.23 per cent in 2017-18). First year premium registered a decline of 9.85 per cent in comparison to growth of 15.02 per cent during 2017-18.

3. In the non-life segment, the insurers underwrote gross direct premium of `52,876 crore in India for the year 2018-19 as against `42,576 crore in 2017-18, registering a growth of 24.19 per cent as against an increase of 22.98 per cent recorded in the previous year. The public sector insurers exhibited growth in 2018-19 at 21.50 per cent; as against the previous year's growth rate of 21.84 percent. The private sector general insurers registered a growth of 28.06 per cent, which is higher than 24.67 percent achieved during the previous year.

PENETRATIONAND DENSITY:

1. However, penetration of the non-life insurance sector in the country has remained near constant in

the range of 0.55-0.75 per cent over the last 10 years (0.71 per cent in 2017 and 0.70 in 2018).

2.. Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in USD for convenience of comparison)(Per capita premium). India has reported consistent increase in insurance density every year since the sector was opened up for private competition in the year 2000. However, for the first time in 2018, there was a fall in insurance density. The life insurance density in India has gone up from USD 9.1 in 2008 to USD 49.0 in 2018 though it reached the peak of USD 55.7 in 2017. The Insurance density of non-life sector reached the peak of USD 10.0 in 2018 from its level of USD 2.4 in 2008.

MICROINSURANCE

1. The IRDA regulations impose obligations on insurers towards the rural population - to sell a specified percentage of policies and underwrite specified percentage of gross premium underwritten for life and non-life insurance companies respectively; and cover a specifi ed number of lives/assets belonging to people below poverty line or those pursuing certain traditional occupations.

2. In the life insurance business of the micro insurance, the Individual New Business premium in the year stood at `115.68 crore for 46.20 lakh new policies, the group business premium amounted to `109.82 crore covering 1.02 crore of lives. LIC contributed most of the business procured in this portfolio by garnering `106.03 crore of individual premium from 38.26 lakh lives and `98.32 crore of group premium underwriting 94.44 lakh lives.

REVISION IN MOTOR THIRD PARTY PREMIUM RATES

Till the end of year 2013, the general insurance business in India was tariff-based which was being administered by the erstwhile Tariff Advisory Committee (TAC). The TAC vide its circular no TAC/7/06 dated 4th December 2006 decided and the rates, terms, conditions & regulations applicable to fire, engineering, motor, workmen's compensation and other classes of business which were under tariffs were withdrawn from 1st January 2014. The motor TP premium rates which were set effective from 1st January, 2014 were not revised by the Authority till the end of year 2017-18. Due to the huge operating losses in this segment , the Authority notified the revised premium rates for motor third party insurance cover with effect from 25th April, 2018 only to the tune of 10 per cent in respect of two wheelers and private cars; and 68.5 per cent in respect of the commercial vehicles.

REINSURANCE

The proposed amendments to the regulations include incorporating additional definitions / modifying existing definitions, retentions being linked to quality of risk, expanding the scope of reinsurance programs to include Alternative Risk transfer (ART) techniques, pools etc., prescribing additional disclosures, prescribing changes to the retention levels of 2011-2012, and prescribing additional returns, to be filed with the Authority, filing of insurer's reinsurance treaty duly approved by the Board, amongst others.

HEALTH INSURANCE

Health Insurance continues to be one of the most rapidly growing sectors in the Indian insurance industry. The growth of health insurance industry lies mainly in better customer orientation in terms of servicing the customers, standardization of procedures and definitions across the industry. Standardization provides simple yet innovative products, better understanding of the terms by the public, less complaints and easy penetration in the market. IRDA has also taken up key initiatives including constitution of the Health Insurance Forum, standardizing of claims formats and other documents. With the objective to track the business progress of health insurance industry as also to regulate the health insurance industry in India, IRDA has formulated IRDA (Health Insurance) Regulations, 2019, which are presently in the advanced stage of discussions for notification.

AMALGAMATION OF INSURANCE COMPANIES

The Insurance Act, 1938 lays down the framework for amalgamation of life insurance companies, but no such provision for non-life insurance companies, this anomaly is proposed to be rectified in the Insurance

Amendment Bill, 2008, to address the statutory/regulatory gap with respect to the non-life insurance companies. Pending the amendment, the Authority has laid down the framework for amalgamation of non-life insurance companies through notification of the necessary regulations in this regard. While laying down the regulatory framework, the Authority has been guided by the need for protection of the policyholders' interests.

SOLVENCY MARGIN

Solvency margin is an index to measure the financial soundness of an insurer to meet the contracted liabilities in his books with the resources available to him. Authorities were disturbed by such catastrophes that cause immense damage to the financial interests of the policy holders who put their savings at the disposal of insurance companies through various forms of insurance contracts. Actuaries developed the concept of solvency and regulators impose on insurers the need for compulsory prudence of business practice to ensure public confidence. The details of the regulator prescribed solvency index varied from country to country but the central idea was to ensure that the insurer do not over-promise the policy holders but at the same time live up to their reasonable expectation of a return on their savings through insurance. IRDA regulation

INDIAN INSURANCE IN THE GLOBAL SCENARIO

1. In the life insurance business, India ranked 10th among the 156 countries, for which the data is published by Swiss Re. During 2018-19, the life insurance premium in India declined by 8.5 per cent (inflation adjusted). During the same period, the global life insurance premium declined by 2.7 per cent. The share of Indian life insurance sector in global life insurance market stood at 2.30 per cent during 2018, as against 2.54 per cent in 2017.

INSURANCE PENETRATION IN INDIA RELATIONSHIP BETWEEN INSURANCE PENETRATION AND PER CAPITA GDP

The ratio of insurance density to the insurance penetration is simply the per capita GDP, an indicator of per person economic activity of the economy. The per capita GDP is often regarded as a good proxy for the standard of living of the people in the economy and is often used to compare the relative standard of living between the economies.

There are several studies [Carter and Dickinson (1992), Enz (2000), Kamiya (2012), Sastry (2011), Sinha et al (2012), Zheng et al (2008), etc.], which have attempted to examine the nature of inter-relationship between the insurance penetration and the per capita GDP. These studies have revealed that a positive relationship holds between insurance penetration and per capita GDP. Insurance penetration normally increases with the increase in the per capita GDP. The relationship between the two could be linear or non-linear (curvilinear). A simple linear relationship will mean that the income elasticity of demand for insurance is a constant. In case, the relation is curvilinear, the elasticity would no more be a constant and would change with the level of per capita GDP and would be dictated by the mathematical form of the non-linearity (such as, exponential, logistic etc.). The studies of Carter and Dickinson (1992) and Enz (2000) indicated that the relationship between the insurance penetration and per capita GDP can be explained with an S-curve (a non-linear form). They demonstrated that the insurance penetration cannot go on increasing with the same pace forever with income per capita. The study of Enz (2000) proposed a logistic curve, which tracks an S-curve appropriately. Enz (2000) analyzed the insurance penetration by plotting it with the per capita GDP for select countries both for the life and non-life segments, separately. It revealed that there exists a level of per capita GDP at which the income elasticity of demand for insurance reaches to the maximum level for both segments (life and non-life) of insurance. Subsequent to this point of maxima, the insurance penetration starts decelerating (increasing at a slower rate) with the increase of per capita GDP. The study also attempted to identify the countries, which are consistently above or below the S-curve, and indicated that these deviations are on account of other factors (for example, socio-demographic and cultural characteristics), which are largely country-specific, which affect the insurance business of these specific counties.

INDIAN SCENARIO (IN DIFFERENT STATES)

1.The scatter plot of S-curve in the study of Enz (2000) reveals that insurance penetration in India lies well above the point of the estimated S-curve. Accordingly, given the assumptions of model in Enz (2000), it is indicated that the insurance penetration in India is higher than what the S-curve suggests. It is interesting to note that there exist other prominent factors (other than the per capita GDP), which influence the growth of Indian insurance business positively. These factors could be demand driven (such as, socio-demographic characteristics of prospect/policyholders, risk appetite, etc.) or, supply driven (such as, quality of distribution channel, product innovation, etc.) or combination of both. While the presence of other factors (other than per capita GDP) is evident in case of India, it is expected that these would vary across various states and union territories of India. Treating these states and union territories as independent economies, the insurance penetration as well as insurance density of individual states and union territories can be computed using their respective Premium underwritten, GDP and Population.

DATA DESCRIPTIONS AND LIMITATIONS

The state-wise computed data of insurance penetration and insurance density is provided. It has been computed annually for the period 2013-14 to 2018-19. The premium figures pertain only to the individual new business first year premium of life insurance.

The insurance penetration stands at 0.78 per cent in 2018-19, while the insurance penetration of total life insurance is 3.47 per cent. The insurance penetration of total life insurance penetration is 3.40 per cent in 2018-19 as per the Swiss Re estimates.

The state-wise data on Gross Domestic Product and per capita Net Domestic Product have been taken from the Central Statistical Organization (CSO). While CSO publishes both the Gross Domestic Product (GDP) and Net Domestic Product (NDP) for various states/UTs, it publishes only Per Capita Net Domestic Product and not the Per Capita Gross Domestic Product. In accordance with the definition of the insurance penetration, the GDP is used for the computation of insurance penetration of various states and union territories. Further, it is taken at the current prices in order to be compatible with the premium figures.

For the scatter plot between insurance penetration and the per capita GDP, the per capita NDP (at current prices) is used, as the per capita GDP is not available. Although, the per capita GDP can be computed by the formula [per capita GDP = (per capita NDP) * (GDP) / NDP] for various states / UTs, the same is not applied and rather the per capita NDP, as available directly, is used as a proxy for the per capita GDP. It may be mentioned that the per capita NDP for majority of states (including All India figure) lies between the range of 85 to 90 per cent of the per capita GDP consistently. Accordingly, by taking the per capita NDP for the scatter plot, the purpose of examining the nature of relationship between the insurance penetration and per capita GDP is well served.

The state-wise data on population is available through Census 2015 and Census 2018. These are used to estimate the state wise population data for various years (2013-14 to 2018-19) using the Compound Average Growth Rate (CAGR) of the respective states and union territories with application of simple interpolations.

3.India is a large country with 35 states/UTs with varying levels of per capita GDP, insurance penetration and insurance density. The per capita NDP of India stood at 60,972 in 2018-19. The same, however, varied significantly across the states and UTs ranging from a low of `24,681 (for Bihar) to a high of 1,92,652 (for Goa) and 1,75,812 (for Delhi). In the present context, 3 UTs viz. Dadra & Nagra Haveli, Daman & Diu and Lakshadweep have not been considered because of their meagre figures.

SCATTER PLOT

The scatter plot of insurance penetration versus the per capita NDP of all the states and union territories for available years (viz. 2013-14 to 2018-19) is given in the Chart. From the scatter diagram, it is clearly seen that there exists a positive relationship between insurance penetration and per capita NDP (as a proxy for per capita GDP) in the Indian context as well, in line with other studies. However, from the chart it is observed that many of the points deviate significantly and are likely to depart from the straight line (if a linear relationship is established). Thus, the chart reveals that there is a presence of other factors also, which appear to be influencing insurance penetration at least for some of the states / union territories.

ANALYSIS

The study of Sinha (2019) identified the per capita number of agents and the per capita number of insurance offices (both are supply driven), as two other influencing factors, apart from per capita GDP, which explained together large section of data. The above study also carried out a multiple linear regression analysis to (i) identify statistically significant factors influencing the insurance penetration and density, (ii) to identify the outlier states/UTs, which are deviating from the estimated straight line statistically significantly and, (iii) to classify the states/UTs, which have under-insurance, over insurance and adequate insurance given the assumptions of the model.

In case of life insurance, given the high importance of per capita number of agents in the country, it is imperative to identify the states and UTs, which are at the extreme ends of under- insurance and over-insurance. That is, there are few states, which have a low premium figure, despite the fact that relatively higher agents have been deployed by the various insurance companies therein. In contrast, few states are capable of underwriting good insurance business despite relatively low agents deployed therein. This poses questions on the allocation of insurance agents by the insurers in various parts of the country. There could be possibility of inappropriate (inadequate or more than adequate) deployment of agents in particular region(s). Thus, the insurers need to analyze the mis-allocation, if any, in the distribution of agents, offices etc.

CONCLUSIONS

1. In India, limit of 26% in foreign insurance shareholding has not arrested development of joint ventures with insurers of good reputation in global market. Global financial scenario is highly volatile with all socio economic models ranging from Corporate Capitalist Democracy of USA to Liberalized Communist model of China. In this scenario, we should protect our newly restructured insurance market from aggressive assaults from financially powerful groups.

2. Investment regulations for insurers are liberalized to a reasonable extent keeping adequate controls on the exposure of insurer’s fund to the unapproved investment in general stock market. But politically oriented investment, if they are taking place under pressure may cause problems for PSUs.

3. In the Insurance business, the new players are handicapped due to lack of data. The premium depends on the data of risk frequency of car accidents, burglary, fire or death. The new insurers are selling fresh policies that promise to challenge some of the basic paradigms of the state owned insurance monopoly. There is a tendency to target the business of existing companies rather than expanding the market by offering better service or other advantages.

4. New insurers can profitably focus on the retail segment, especially in general insurance. At present personal insurance including health, householders, shopkeepers, accident and professional indemnity coverage constitute 15% of Indian General Insurance premium. New entrants can enhance this figure.

5. Life Insurance potential can be examined by Insurers in details from three angles i.e. in terms of insurable population, savings and consumption expenditure. In India, less than 30% of total insurable populations have been insured. Joint efforts need to be made by all insurers to extend the coverage. Besides a wide range of product, there is need to focus on Single Premium, Retirement and pension plan, Health insurance, Children’s plan. 46% of total household savings are in guaranteed return plan like NSC, PPF etc. There is need to convert to LI plans with regard to protection element, long term capital appreciation and dual tax benefits at investment and maturity. Less than 50% of total policies sold are in conventional plans; product mix is a good challenge.

6. Providing insurance cover to lower strata of society through various schemes, micro insurance need urgent attention.

7. E-Commerce and market conducts are two important areas which will strengthen the relationship between companies, consumers and regulators.

8. In most of the countries, Insurance industries have not been allowed to operate in a free and competitive environment and are saddled with avoidable

restrictions. The market forces should be allowed to operate and determine as to which are the best products and optimum price in the interest of the consumers. Similarly most of the decisions relating to investment of funds, marketing of products, placement of reinsurance business should be left to marketing forces. The objective behind regulations is to ensure financial strength of the companies so that the interest of the policy holders are protected, the objective could efficiently be achieved through macro level policies and management. These companies may also be encouraged to observe self discipline and code of conduct. For instance, strict compliance to maintain solvency margin will itself ensure healthy financial strength. The method of disclosure norms may be extensively used and enforced. The objective of protecting the interest of the consumers may well be achieved through these macro management policies without any need to resort to regulate micro level activities of the companies.

9. There is no doubt at all that the Govt. monopoly over the insurance business had to end. There is crying need for better service more innovation and a comprehensive insurance cover. The obvious changes in the insurance markets are there for all to see new brands, new products, fresh advertising, and smart agents- all adding up to the excitement. Innovation of products, services, speed and adoption of technology and professionalism and above all operation cost (management + procuration cost) will decide the future fate of insurance industry.

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