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INSURANCE SECTOR IN INDIA “A JOURNEY SINCE IT’S INCEPTION”

Insurance Sector in India “A Journey Since It’s Inception”

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Abstract - Insurance sector in India is one of the booming sectors of the economy and is growing at the rate of 15-20 percent per annum. Together with banking services, it contributes to about 7 percent to the country's GDP. Insurance sector in India was liberalized in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill. This lifted entry restrictions for private players and allowed foreign players to enter the market with some limits on direct foreign ownership. There is a 26 percent equity cap for foreign partners in an insurance company and a proposal to increase this limit to 49 percent. The opening up of the insurance sector has led to rapid growth of the sector. The potential for growth of insurance industry in India is immense as nearly 80 per cent of Indian population is without life insurance cover while health insurance and non-life insurance continues to be well below international standards. The insurance sector in India has come up with a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost two centuries. The US\$ 41 billion Indian life insurance industry is considered the fifth largest life insurance market, and growing at a rapid pace of 32-34 percent annually.

Keywords: Regulatory role, Business Growth, Business Potential, threat to public sector insurance companies.

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1. INTRODUCTION

The origin of life insurance in India can be traced back to 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. It was conceived as a means to provide for English Widows. In those days a higher premium was charged for Indian lives than the non-Indian lives as Indian lives were considered riskier for coverage. The Bombay Mutual Life Insurance Society that started its business in 1870 was the first company to charge same premium for both Indian and non-Indian lives. In 1912, insurance regulation formally began with the passing of Life Insurance Companies Act and the Provident Fund Act. By 1938, there were 176 insurance companies in India. But a number of frauds during 1920s and 1930s tainted the image of insurance industry in India. In 1938, the first comprehensive legislation regarding insurance was introduced with the passing of Insurance Act of 1938 that provided strict State Control over insurance business. Insurance sector in India grew at a faster pace after independence. In 1956, Government of India brought together 245 Indian and foreign insurers and provident societies under one nationalized monopoly corporation and formed Life Insurance Corporation (LIC) by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs.5crore. The (non-life) insurance business/general insurance remained with the private sector till 1972. There were 107 private companies involved in the business of

general operations and their operations were restricted to organised trade and industry in large cities. The General Insurance Business (Nationalization) Act, 1972 nationalized the general insurance business in India with effect from January 1, 1973. The 107 private insurance companies were amalgamated and grouped into four companies: National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company. These were subsidiaries of the General Insurance Company (GIC). Insurance is a federal subject in India and Insurance industry in India is governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999.

2. OBJECTIVES OF THE STUDY:

- To study growth of Indian Insurance sector.
- To study the Role of Regulatory frame work of IRDA.
- To study the Market Potential for Insurance Business.

3. RESEARCH METHODOLOGY:

The paper is completely a conceptual one whose basic foundation comes from various secondary sources like research articles in Journal, published and unpublished scholarly papers, and books, various international and local journals, speeches, newspapers and websites. The analysis part of the paper is based on the statistical data provided by IRDA.

4. SIGNIFICANCE OF THE STUDY:

The study has been conducted to review the insurance sector after its liberalization and to find out the growth of the insurance sector. Insurance sector has shown a phenomenal growth after its liberalization and it has increased after the private sectors entry. Insurance sector in India is the most trusted sector and has insured Indians lives to protect them from the uncertainties and sudden disasters. Insurance sector is working in all the facets of human life. The study basically talks about the changes in the sector regulations and its impact on the growth.

5. PREMATURE PHASE OF INSURANCE SECTOR IN INDIA:

The origin of life insurance in India can be traced back to 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. It was conceived as a means to provide for English Widows. In those days a higher premium was charged for Indian lives than the non-Indian lives as Indian lives were considered riskier for coverage. The Bombay Mutual Life Insurance Society that started its business in 1870 was the first company to charge same premium for both Indian and non-Indian lives. In 1912, insurance regulation formally began with the passing of Life Insurance Companies Act and the Provident Fund Act. By 1938, there were 176 insurance companies in India. But a number of frauds during 1920s and 1930s tainted the image of insurance industry in India. In 1938, the first comprehensive legislation regarding insurance was introduced with the passing of Insurance Act of 1938 that provided strict State Control over insurance business. Insurance sector in India grew at a faster pace after independence. In 1956, Government of India brought together 245 Indian and foreign insurers and provident societies under one nationalized monopoly corporation and formed Life Insurance Corporation (LIC) by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs.5crore. The (non-life) insurance business/general insurance remained with the private sector till 1972. There were 107 private companies involved in the business of general operations and their operations were restricted to organized trade and industry in large cities. The General Insurance Business (Nationalization) Act, 1972 nationalized the general insurance business in India with effect from January 1, 1973. The 107 private insurance companies were amalgamated and grouped into four companies: National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company.

These were subsidiaries of the General Insurance Company.

5.1 MILESTONE OF INSURANCE REGULATION AFTER 1911:

1912: First piece of insurance regulation promulgated Indian Life Insurance Company Act, 1912

1928: Promulgation of the Indian Insurance Companies Act.

1938: Insurance Act 1938 introduced, the first comprehensive legislation to regulate Insurance business in India.

1956: Nationalization of life insurance business in India.

1972: Nationalization of general insurance business in India.

5.2 POST NEW INDUSTRIAL POLICY 1991:

In 1993, the first step towards insurance sector reforms was initiated with the formation of Malhotra Committee, headed by former Finance Secretary and RBI Governor R.N. Malhotra. The committee was formed to evaluate the Indian insurance industry and recommend its future direction with the objective of complementing the reforms initiated in the financial sector. The formation of the Malhotra Committee in 1993 started reforms in the Indian insurance sector. The aim of the Malhotra Committee was to assess the functionality of the Indian insurance sector. This committee was also in charge of recommending the future path of insurance in India. The Malhotra Committee attempted to improve various aspects of the insurance sector, making them more appropriate and effective for the Indian market. The recommendations of the committee put stress on offering operational autonomy to the insurance service providers and also suggested forming an independent regulatory body The Insurance Regulatory and Development Authority (IRDA) to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives.

5.3 MILESTONES OF INSURANCE REGULATIONS AFTER 1992:

1993: Setting-up of the Malhotra Committee.

1994: Recommendations of Malhotra Committee released.

1995: Setting-up of Mukherjee Committee.

1996: Setting-up of an (interim) Insurance Regulatory Authority (IRA).

1997: Mukherjee Committee Report submitted but not made public.

1997: The Government gives greater autonomy to LIC, GIC and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector.

1998: The cabinet decides to allow 40% foreign equity in private insurance companies 26% to foreign companies and 14% to Non-Resident Indians (NRIs), Overseas Corporate Bodies (OCBs) and Foreign Institutional Investors (FIIs).

5.4 MILESTONES OF INSURANCE REGULATIONS AFTER 1998:

1999: The Standing Committee headed by Murali Deora decided that foreign equity in private insurance should be limited to 26%. According to the committee recommendations the IRA Act was renamed the Insurance Regulatory and Development Authority (IRDA) Act.

1999: During the same year Indian Cabinet cleared IRDA Act.

2000: President gave consent to the IRDA Act.

6. POST 1999 INSURANCE SECTOR:

The Insurance Regulatory Development Act, 1999 (IRDA Act) allowed the entry of private companies in the insurance sector, which was so far the sole prerogative of the public sector insurance companies. The act was passed to protect the concerns of holders of insurance policy and also to govern and check the growth of the insurance sector.

6.1 REGISTRATION OF AN INSURANCE COMPANY:

This new act allowed the private insurance companies to function **in India under the following conditions:**

- The applicant is required to make a separate requisition for registration for each class of business i.e. life insurance business consisting of linked business, non-linked business or both, or general insurance business including health insurance business
- The company should be established and registered under the 1956 company Act.
- The company should only the serve the purpose of life or general insurance or reinsurance business. The name of the

applicant needs to contain the words "insurance company" or "assurance company".

- An insurer who has been granted a certificate of registration should renew the registration before the 31 day of December each year.
- A minimum paid-up equity capital of rupees two billion, in case of a person carrying on exclusively the business of reinsurance.
- A minimum paid up equity capital of rupees one billion in case of an applicant which seeks to carry on the business of life insurance or general insurance.
- The average holdings of equity shares by a foreign company or its subsidiaries or nominees should not go above 26% paid up equity capital of the Indian Insurance company.

7. GROWTH OF INDIAN INSURANCE SECTOR:

The US\$ 41-billion Indian life insurance industry is considered the fifth largest life insurance market, and growing at a rapid pace of 32-34 per cent annually, according to the Life Insurance Council. This sector grew at an average growth rate of 6.3 per cent in the last five years (2007-08 to 2011-12). As at end-September 2012, 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 re-insurer. Of the fifty two companies presently in operations, eight are in the public sector - two are specialized insurers, namely ECGC and AIC, one in life insurance namely LIC, four in general insurance and one in reinsurance. The remaining forty four companies are in the private sector.

Table 1

Number of Life Insurance Offices						
As on 31 st March						
Insurer	2007	2008	2009	2010	2011	2012
Private	3072	6391	8785	8768	8175	7712
LIC	2301	2522	3030	3250	3371	3455
Industry	5373	8913	11815	12018	11546	11167
1) Offices opened after approval of the Authority.						
2) Offices as defined under Section 64VC of the Insurance Act, 1938.						

Source: IRDA Annual Report 2011-12

Table 2

DISTRIBUTION OF OFFICES* OF LIFE INSURERS (As on 31st March, 2012)					
Insurer	Metro	Urban	Semi Urban	Others	Total
Private	741	1393	3822	1756	7712
LIC	365	563	970	1557	3455
Industry	1106	1956	4792	3313	11167
1) Based on HRA classification of places done by the Ministry of Finance.					
2) Metro: Delhi, Mumbai, Chennai, Kolkata, Hyderabad and Bangalore.					
3) Urban: A, B-1 and B-2 class of the HRA classification.					
4) Semi Urban: C class cities of the HRA classification.					
5) Others: Places not listed in the HRA classification.					

Source: IRDA Annual Report 2011-12

As can be observed from Table 2, majority of the offices of life insurers are located either in semi-urban areas or in small towns, which are not listed in House Rent Allowance (HRA) classifications of the Ministry of Finance. Around 73 per cent of life insurance offices are located in these small towns. This pattern of distribution of offices is consistent across both private sector and public sector life insurers.

Table 3

Paid Up Capital (Life Insurer) (` Crore)			
Insurer	31 st March 2011	Addition during 2011-12	31 st March 2012
LIC	5.00	95.00	100.00
Private	23656.85	1175.07	24831.92
Total	23661.85	1270.07	24931.92
▪ Excludes premium on issue of equity share capital.			

Source: IRDA Annual Report 2011-12

As can be observed from Table 3 The total capital of the life insurance companies as on 31st March, 2012 was `24,932crore. During 2011-12, an additional capital of `1,270crore was brought in by the industry. The incremental capital brought in by the private sector insurers was `1,175crore and LIC added `95crore to its capital of `5crore to raise it to `100crore.

7.1 INDIAN LIFE INSURANCE SECTOR IN FINANCIAL YEAR 2011-12:

The sector reported a growth rate of 2.6 per cent during 2011-12, as compared to 6.8 per cent in the previous year. With this, the sector grew at an average growth rate of 6.3 per cent in the last five years (2007-08 to 2011-12). The slowdown in industrial production appeared to be almost across all sub-sectors. 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 2011-12 (65.5

per cent in 2010-11), because of better performance of this sector in absolute as well as in relative (to agricultural and industrial sector) sense. The life insurance industry recorded a premium income of `2, 87,072crore during 2011-12 as against `2, 91,639crore 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. On the basis of total premium income, the market share of LIC increased marginally from 69.77 per cent in 2010-11 to 70.68 per cent in 2011-12. Accordingly, the market share of private insurers has gone down marginally from 30.23 per cent in 2010-11 to 29.32 per cent in 2011-12. During 2011-12, life insurers issued 442lakh new policies, out of which LIC issued 358lakh policies (80.90 per cent of total policies issued) and the private life insurers issued 84lakh policies (19.10 per cent).

7.2 INDIAN NON-LIFE INSURANCE SECTOR IN FINANCIAL YEAR 2011-12:

In the non-life segment, the insurers underwrote gross direct premium of `52,876crore in India for the year 2011-12 as against `42,576crore in 2010-11, 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 2011-12 at 21.50 per cent; as against the previous year's growth rate of 21.84 per cent. The private sector general insurers registered a growth of 28.06 per cent, which is higher than 24.67 per cent achieved during the previous year. The total net premium written by GIC during 2011-12 increased by 19.45 per cent to `12,558crore as compared to `10,513crore in 2010-11. IRDA, as on 31st March, 2012 has granted license to three insurance companies to operate as stand-alone health insurance companies exclusively in the Health insurance segment. The names of these insurers are: Star Health and Allied Insurance Co Ltd, Apollo Munich Health Insurance Co Ltd, and Max-Bupa Health Insurance Co Ltd. These insurance companies are authorized to underwrite business in health, personal accident and travel insurance segments. Further, IRDA has granted license to the Religare Health Insurance Co. Ltd., a new standalone health insurer in the current year viz. 2012-13.

7.3 STATISTICS OF PRIVATE LEADING LIFE INSURANCE COMPANIES:

During the financial year 2011-12, the life insurance industry reported net profit of `5,974 crore as against `2,657crore in 2010-11. Out of the twenty four life insurers in operations during 2011-12, fourteen companies reported profits. They are LIC, ICICI Prudential, Birla Sunlife, HDFC Standard, Max Life, Reliance, Bajaj Allianz, SBI Life, Kotak Mahindra, Tata- AIA, MetLife, Aviva, Sahara India and Shriram. Life Insurance Corporation of India has reported net profit of `1,313 crore i.e., an increase of 12.08 per

cent over `1,172 crore in 2010-11. The largest private sector life insurer ICICI Prudential reported profit of `1,384 crore for the third year in a row (`808crore in 2010-11) after incurring losses for eight consecutive years. Birla Sunlife, Max Life and Tata AIA reported profits of `461crore, `460crore and `260crore respectively for the second year in succession after incurring losses for nine successive years.

8. POTENTIAL OF INDIAN INSURANCE INDUSTRY:

With a huge population base and large untapped market, insurance industry is a big opportunity area in India for national as well as foreign investors. India is the fifth largest life insurance market in the emerging insurance economies globally and is growing at 32-34% annually. This impressive growth in the market has been driven by liberalization, with new player's significantly enhancing product awareness and promoting consumer education and information. The strong growth potential of the country has also made international players to look at the Indian insurance market. Moreover, saturation of insurance markets in many developed economies has made the Indian market more attractive for international insurance players. An insurance market in many developed countries of the world has made the Indian insurance market more magnetic in terms of international insurance players. The available source of the insurance sectors reflects the following:

- a) Home insurance sector is likely to achieve a 100% growth since home insurance are made compulsory for housing loan approvals by the financial institutions.
- b) In the coming three years Health insurance sector is all set to become the second largest business after motor insurance.
- c) During the period of 2008-09 to 2010-11 the non life insurance premium is likely to have a growth of 25%.

CONCLUSIONS:

India is the important emerging insurance markets in the world. Life insurance will grow very rapidly over the next decades in India. The major drivers include sound economic fundamentals, a rising middle-income class, an improving regulatory framework and rising risk awareness. The fundamental regulatory changes in the insurance sector in 1999 were significant for future growth. Despite the restriction of 26% on foreign ownership, large foreign insurers were entered the Indian market. State owned insurance companies still have dominant market positions. But, this would probably change over the next decade.

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