

Coverage & Penetration now a Necessity for the Players & the Economy: A Special Reference to the Life Insurance Sector

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Abstract: *Insurance in India refers to the market for insurance in India which covers both the public and private sector organizations. India's insurable population is anticipated to touch 750 million in 2020, with life expectancy reaching 74 years. Furthermore, life insurance is projected to comprise 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10. The Life insurance industry has went through several changes in the regulatory framework which is further changing the way the industry conducts its business and engages with its customers. Though the penetration and premium collection from the insurance sector has shown positive sign yet there remains a huge untapped segment signaling about the need for penetration. The paper is an attempt to study the current life insurance market and also provides an insight to the people at large regarding selection of an appropriate scheme and provider.*

Keywords: *Insurance, Premium, Penetration, Density, Social security.*

1. INTRODUCTION

Insurance in common parlance implies a form of financial security. In the domain of law and economics, it implies a mode of risk management primarily aimed at mitigating or lessening the impact of an uncertain or contingent loss. It is typically done in exchange for a certain sum that seeks to transfer the risks of a loss from one entity to another. The process generally entails the involvement of insurance firms which brings various insurance policies to the general public, thereby acting as an insurer to an insured. An insured is also called a policy holder.

The insured entity can be an individual or any other entity who agrees to pay a certain sum of money called an insurance premium that the insurer determines to be adequate for covering the financial loss of the policy holder.

The major change of the life insurance industry in India is the opening up to private and global players. Life Insurance Corporation of India (L.I.C.I) dominated the Indian Life Insurance market. With the development of the Insurance Regulatory and Development Authority the (IRDA) Act in 1999 was a clear signal of the end of the monopoly of LIC in the insurance sector. It has become imperative for LIC to face the competition posed by the entry of new private players. The insurance industry has undergone a drastic change since

liberalization, privatization and globalization of the Indian economy in general and the insurance sector in particular. With total 52 insurance companies among them 24 are life insurer and 28 are non-life insurer. After liberalization the private companies has been making waves. They have been penetrating their business more and more form year to year and has been increasing their market share and presence.

2. OBJECTIVE OF THE STUDY

- The study is an attempt to present the penetration of the Indian insurance industry particularly the life insurance sector
- To also list the businesses of the current players in contrast to LIC.
- Briefing on the measures to improve the penetration and coverage with its favorable impact on the economy

3. METHODOLOGY

The study is based on secondary data collected from various sources especially from journal, articles and IRDA reports. Various websites have also been studied to conduct the study.

A view of the insurance penetration and Density in some of the countries present across the globe.

Insurance Density across different countries

Insurance density, on the other hand, is the ratio of insurance premium to the total population. It gives an indication of how much each of the people in a country spends on insurance in terms of premium. In the entry of private players, the competition is becoming intense. After the entry of these private players, the market share of LIC has been considerably reduced. As on 16 July 2015 there are Insurance penetrations and Insurance density reflects the country's level of development of insurance. 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) sector in a country. Currently India's Insurance penetration stands at 3.44 in 2015 compared to 3.33 in 2014 and Insurance density at 54.7 USD.

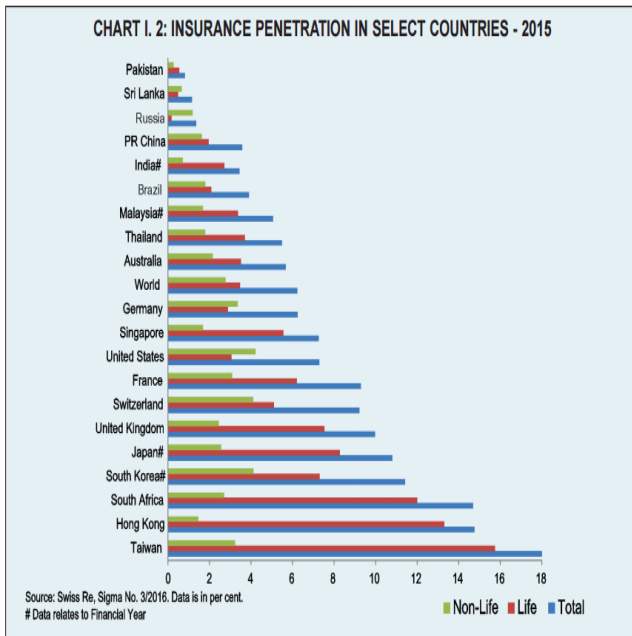


Fig1: Insurance penetration is measured as ratio of premium (in USD) to GDP (in USD)

Other words, it is the per capital premium for the country, calculated by dividing the total insurance premium by the population. It compares insurance sales volume of customer group to another.

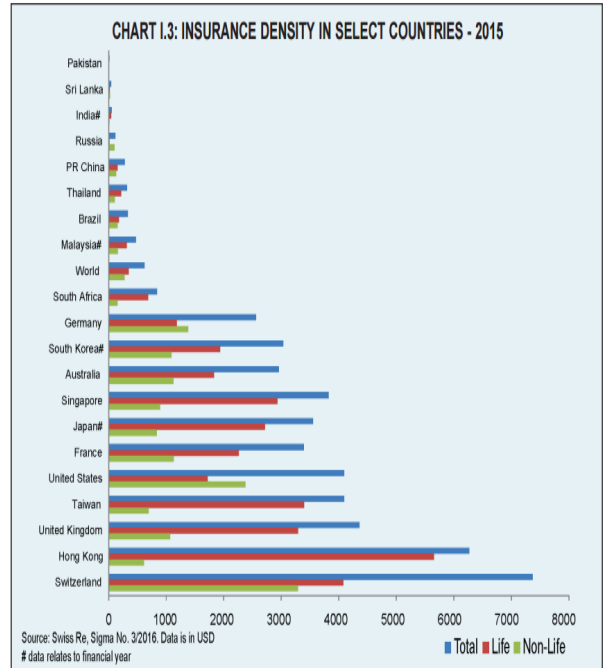


Fig 2: Insurance penetration is measured as ratio of premium (in USD) to GDP (in USD)

A look on the Indian Insurance penetration and density

As per the Swiss Re report. Insurance intermediaries, like agents and insurance marketing firms, have been helping the insurance industry to extend its footprint across the country. Despite the gentle rise in insurance penetration which is percentage of insurance premium with reference to the Gross Domestic Product (GDP), it is still far below the global average, according to paper titled 'Insurance penetration in India,' by the Associated Chamber of Commerce and Industry of India (ASSOCHAM). Since last year, the insurance industry has started picking up momentum. Insurance penetration recorded a marginal growth of nearly 3.5% in FY 2016-17 as against 3.4% in FY 2015-16. Insurance density also increased to nearly US \$60 as against US \$55 in the previous fiscal, finds a recent Swiss Re report. In FY 2015-16, the insurance industry saw a marginal increase in insurance penetration and density after five years of continuous decline. This is the second consecutive year when the industry recorded growth in its penetration and density.

While life insurance penetration in India stood at 2.72%, general insurance witnessed penetration 0.77% last fiscal. As per a report the life insurance business in India would grow at a faster pace compared to non-life business.

The report attributed this growth to the efforts of insurance intermediaries such as insurance agents and brokers. Insurance intermediaries accounted for a whopping 60-70% of gross premiums last fiscal, the report stated. Their role in the sale of life insurance remains especially important, probably reflecting the more complex nature of many of the life products and the value policyholders attach to an agent's advice.

Indian Insurance penetration and density

Year	Penetration (%)	Density(USD)
<u>FY05</u>	<u>3.17</u>	<u>3.57</u>
<u>FY06</u>	<u>3.4</u>	<u>4.14</u>
<u>FY07</u>	<u>4.8</u>	<u>5.13</u>
<u>FY08</u>	<u>4.7</u>	<u>6.4</u>
<u>FY09</u>	<u>4.6</u>	<u>6.09</u>
<u>FY10</u>	<u>5.2</u>	<u>6.8</u>
<u>FY11</u>	<u>5.1</u>	<u>8.6</u>
<u>FY12</u>	<u>4.1</u>	<u>10.23</u>
<u>FY13</u>	<u>3.96</u>	<u>10.38</u>
<u>FY14</u>	<u>3.9</u>	<u>10.35</u>
<u>FY15</u>	<u>3.3</u>	<u>11.23</u>
<u>FY16</u>	<u>3.4</u>	

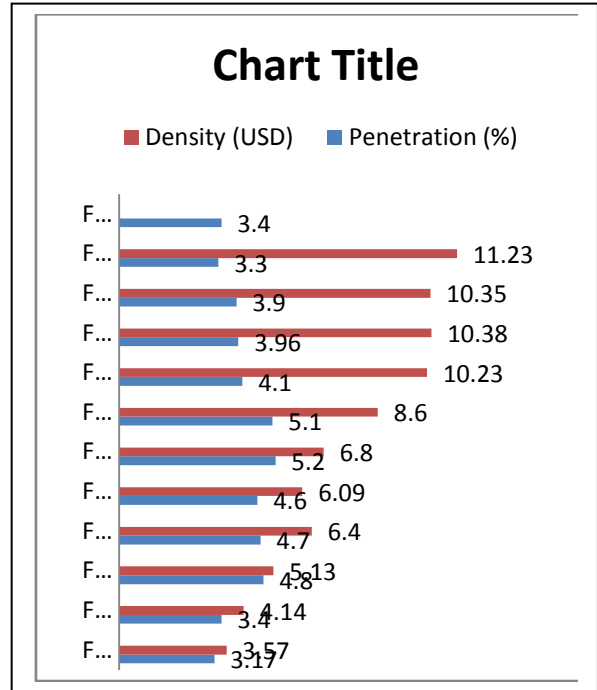


Fig 3: Insurance penetration and Density, Source- Insurance Regulatory and Development Authority (IRDA)

As per the Insurance Density, India is among the lowest spending nations in Asia in respect of purchasing insurance. High growth rate of population is one of the important factors that have been slowing down insurance density.

Market share of the Life insurance companies in

Life Insurance companies	Market share (%)
LIC	70.4
SBI	5.1
ICICI	4.88
HDFC	4.08
Bajaj Allianz	2.08
Max Life	2.08
Birla Sun Life	1.60

Reliance Life	1.12
others	8.06
Total	100

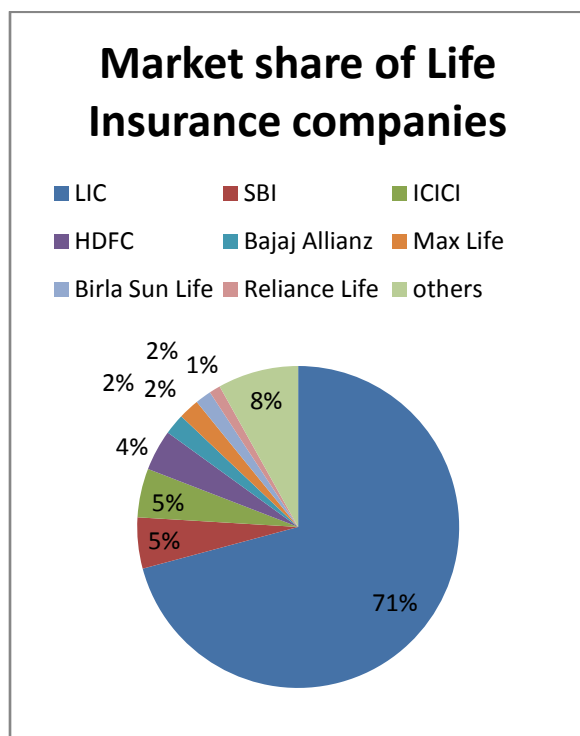


Fig 4: Total Insurance premium, Source- IRDA

4. INTERPRETATION

As traditionally Indians relied on their extended families for support in the event of illness or other misfortunes. However, due to migration, urbanization and higher social mobility, family bonds are less tight and family units have become much smaller than they used to be. Moreover neither the state nor the private insurance players have quite stepped up to fill this gap. There is a big vacuum which is not only the need of economy but is of benefit to the people in large. The study pointed out that the entry of insurance remains significantly lower than the other Asian countries. India accounts for less than 1.5% of the world's total insurance premiums and 5 of the world's life insurance premiums

despite being the second most populous nation. Majority of the Indian population works in the unorganized sector and thus it becomes essential to take care of their future needs and to provide for the formal schemes relating to financial security. Even though the penetration is increasing but due to the lack of knowledge and awareness among Indians, there is still a huge scope of this sector. Even though for the Indian Society has seen very weak social security of Indian population, the present Prime Minister Shri Narendra Modi has launched three new social security schemes.(PM Bima Yojana).Present government schemes (2 insurance & 1 pension scheme) is aimed at the unorganized sector and economically weaker sections of the society, though the benefits of the scheme can be availed by any of the strata of the society.

The schemes are the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), which provides a cover of Rs 2 lakh against an annual premium of Rs 330; the Pradhan Mantri Suraksha Bima Yojana (PMSBY) that offers yearly accidental death and disability cover worth Rs 2 lakh against an annual premium of Rs 12 and Atal Pension Yojana (APY) which is applicable for the people of the age group 18-40 years. This is meant for the people with low income who do not fall under the income tax bracket.

As it is understood that awareness of the people, informing and educating them can be a real solution to the problem.

5. STEP-BY-STEP PROCESS TO SELECT THE BEST LIFE INSURANCE COMPANY IN INDIA

To get an optimum life insurance plan it is necessary to select the best life insurer in India. Let's find out the steps below:

Analyze your needs

A life insurance plan helps your family financially post your demise. Therefore it is important for you to assess your number of dependents in your family, your outstanding loans, investments and source of income, etc.

Know the claim settlement ratio of the Life Insurer

Claim settlement ratio is the capability of the insurance company to settle your claims. It doesn't make sense to buy a life insurance plan from an insurer with a bad claim history. Therefore, check the claims made during a financial year and whether the same were fulfilled or not and the time taken to pay-off the claims. Knowing the duration to settle the claim

is important for your family to be relaxed for the claims to get settled in lesser duration and efforts. This would also help you in knowing the efficiency of the company to settle the claims. Understand the solvency ratio of the life insurer. This would help you in knowing the financial standing and whether the company is financially capable of paying your claims. If the company happens to be insolvent, then it would fail to settle your claims.

Compare the plans

The plans, their benefits offered and the premiums differ from one life insure to another. This is because, your age, sum assured, coverage and type of plan differs with all the insurers. Therefore compare quotes on Coverfox.com to ensure you are in safe hands.

Look out for riders

You can enhance your basic life insurance plan by opting for riders. Check for riders offered by different insurers and finalize the one which you feel offers extra benefits. Also, ensure to buy riders only as per your requirement. You would have to chip-in extra premium for buying riders that are not a part of your basic life insurance policy.

Keep inflation in mind

Inflation plays a major role on your lifestyle, apart from age and duration of the policy. You need to narrow down your search on the sum assured and choose a right policy that would be beneficial to your family once you are gone. Seek professional help from one insurance advisor.

6. CONCLUSION

Insurance intermediaries, like agents and insurance marketing firms, have been helping the insurance industry to extend its footprint across the country since last year; the insurance industry has started picking up the momentum. The measure of insurance penetration and density reflects the level of development of the sector and now it is upon the regulators to set up to the plate. It is the time to transform- in thoughts and actions. This also means outcomes need building coalitions, creating specialized knowledge, less hierarchy, more collaboration and flatter professional structures.. Besides the regulatory policy is less development oriented Indian insurance market accounts for less than 1.5% of the world's total insurance premium as India is both under-penetrated and inadequately penetrated. Life insurance sector thus has a substantial role to play in the current scenario leading to educating the masses especially of rural area for creating financial independency.

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