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A Review on Insurance Sectors in India: Opportunities and Challenges

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Abstract

Insurance sector in India is one of the fastest growing sectors in Indian economy. Risks and uncertainties are part of life's great adventure- accidents, illness, theft, Natural disasters- they are all built into working of the universe waiting to happen. So far that there is a solution - insurance and to provide with the knowledge of this insurance benefits to the customers, the Financial Consultant plays an important role in this field.

Keywords - Insurance, Policy, i-Plans, Unit linked Insurance Plan (ULIP)

Introduction

By the road side, there is a caution – Be not in a hurry. It is better to be 5 minutes late here than to be 5 years early there. The caution, by implications, tells us that, haste or hurry is likely to be put an end to one life. With the largest number of life insurance policies in force in the world, Insurance happens to be a mega opportunity in India. It's a business growing at the rate of 15-20 per cent annually. The economic reforms initiated in the early 90s paved the way for the growth and opening up of the financial sector, which led to a sustained period of economic growth. The insurance industry was opened up for private players in 2000, and has seen tremendous growth over the past decade with the entry of global insurance majors. India is fast emerging as one of the world's most dynamic insurance markets with significant untapped potential. The insurance sector plays a critical role in a country's economic development.

Indian Insurance Sector

The insurance industry of India consists of 52 insurance companies of which 24 are in life insurance business and 28 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India. Other stakeholders in Indian Insurance market include Agents (Individual and Corporate), Brokers, Surveyors and Third Party Administrators servicing Health Insurance claims.

Out of 28 non-life insurance companies, 5 private sector insurers are registered to underwrite policies exclusively in Health, Personal Accident and Travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialized insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for Crop Insurance. Insurance penetration of India i.e. Premium collected by Indian insurers is 3.96 % of GDP in FY 2012-13. Per capita premium underwritten i.e. insurance density in India during FY 2012-13 is US\$ 53.2. Here are some performance highlights of the Indian insurance industry.

Life Insurance Business Performance:

	2012-13		2011-12	
	Public Sector	Private Sector	Public Sector	Private Sector
Premium Underwritten (Rs in Crores)	208803.58	78398.91	202889.28	84182.83
New Policies Issued (in Lakhs)	367.82	74.05	357.50	84.42
Number of Offices	3526	6759	3455	7712
Benefits Paid (Rs in Crores)	134922	57571	117497	35635
Individual Death Claims (Number of Policies)	750576	127906	731336	122864
Individual Death Claims Amount Paid (Rs in Crores)	7222.90	2147.32	6559.51	1849.23
Group Death Claims (Number of lives)	245467	119970	244314	158093
Group Death Claims Amount Paid (Rs in Crores)	1697.37	949.08	1586.75	794.99
Claim Settlement Ratio (in percent)	99.25	99.74	97.42	89.34

Non-Life Insurance Business Performance:

	2012-13		2011-12	
	Public Sector	Private Sector	Public Sector	Private Sector
Premium Underwritten (Rs in Crores)	35022.12	27950.69	30560.74	22315.03
New Policies Issued (in Lakhs)	689.68	380.56	528.41	329.3
Number of Offices	6190	1466	5281	1394
Incurred Claim Ratio	79.56	84.79	89.22	88.22
Number of Grievances	20164	60358	12721	82790
Grievances Resolved During the Year	19057	60230	11110	82741
Grievance Resolved (in percent)	94.51	99.79	87.33	99.94

* Specialized and Standalone Health Insurers are not included
 (Source: http://www.policyholder.gov.in/Indian_Insurance_Market.aspx)

Growth of Life Insurance Business in India

India continues to be a country of savers though we have witnessed a decline in the household savings rate in the past couple of years. In India, the problem lies in household savings lying idle or getting invested in saving instruments that do not help them achieve their life stage goals. There is a worrying trend of larger portion of household savings getting into non-productive physical assets such as real estate and gold.

Life insurance is a big savings vehicle along with banking in such uncertain economic environment and so we expect the industry to fare reasonably well. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will also support the growth of Indian life insurance.

As per the current (March 2006) FDI norms, foreign participation in an Indian insurance company is restricted to 26.0% of its equity / ordinary share capital. The Insurance Regulator has stipulated that foreign investment in Indian Insurance companies be limited to 26% of total equity issued (FDI limit) with the balance being funded by Indian promoter entities. The limit to foreign investment includes both direct and indirect investment and has been a cause of significant lobbying by foreign insurance companies for a change in regulations to increase the FDI limit to 49% of equity issued. Recently, In the Fiscal Budget of Modi Government of 2014-15 it has introduced 49.0% FDI which will bring in more investments in Insurance Sector.

The Indian government has supported an increase in the FDI limit, which requires a change in the Insurance Act. The Union Budget for fiscal 2005 had recommended that the ceiling on foreign holding be increased to 49.0%.

A change in the Insurance Act requires a passage of the bill in both houses of Parliament. The Indian government has tabled the bill in the Upper House of Parliament in August 2010.

Opportunities

- i) Aggressive marketing strategies by private sector insurers will buoy consumer awareness of risk and expand the markets for products
- ii) Competition in the insurance sector will allow market forces to set premiums that are appropriate for exposures and push insurers to differentiate their products and services.
- iii) There is a probability of a spurt in employment opportunities
- iii) The falling interest rates, the scope for entering related areas like banking and pensions in a bit for synergy and the promise of e-commerce are some of the opportunities knocking at the door of the insurance sector.
- iv) Given the enormous potential the Indian insurance market, it is expected that there will be enough business for the industry entrants.

Challenges:

- i) Premium rates will remain under pressure due to intense competition on the more profitable lines.
- ii) Public and private sector insurer's greater reliance on their investment portfolios to generate sufficient income and gains for net profits would subject them to the volatility of the financial markets.
- iii) As far as the prospective are concerned, the greatest challenge is that of setting up infrastructure and to reach out to as many areas as possible.
- iv) The biggest challenge for public sector giant, the Life Insurance Corporation is one of the Sustaining the huge growths it has shown in the recent times.

- v) Despite the liberalization in the insurance sector, public sector insurance companies are expected to maintain their dominant positions, at least in the foreseeable future.

Conclusion:

From above discussion it is evident that life insurance expanded tremendously from 2000 onwards in terms of new business policies and premium business.

Indian insurance companies still have dominant market position. 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 since 1999 were significant for future growth. Despite the restriction of 26 percent on foreign ownership, large foreign insurers were entered in the Indian market. Private life insurers used the new business channels of marketing to a great extent when compared with the LIC.. But this would probably change over the next decade.

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