BY: DR S. AMUTHA RANI
P. JEYACHITRA

INSURANCE SECTOR: VITAL FOR INDIA'S ECONOMIC DEVELOPMENT

India is well below the world average when it comes to insurance penetration and insurance density. Though the insurance sector has grown visibly after the entry of private players, it needs a push to contribute to India's development in a big way.

India's insurable population is expected to grow to 750 million and life expectancy to 74 years by 2020. As a result, life insurance, which is the second most preferred financial instrument in India, would contribute to an estimated 35 per cent of total savings in the next seven years, compared with a meagre 26 per cent in 2010. According to the Financial Stability Forum, insurance services are categorised into three major categories: life insurance, non-life insurance and reinsurance. The life insurance sector helps in providing risk cover, investment and tax planning for individuals; while the non-life insurance industry provides a risk cover for assets. Developing countries often find themselves in the position of being buyers of reinsurance.

The potential and performance of the insurance sector is universally assessed with reference to two parameters—insurance penetration and density. These two are often used to determine the level of development of the insurance sector in a country.

Insurance penetration in India

Insurance penetration measures the growth of life insurance premiums vis-a-vis the growth of the gross domestic product in the economy, and reflects the level of development of the insurance sector in a country. The total insurance premiums in a country measured as a percentage of the country's GDP define its insurance penetration. The Life Insurance Council, the industry body of life insurers in India, estimates the life insurance sector will record a compounded annual growth rate (CAGR) of 12-15 per cent over the next five years. Life insurance penetration, measured as the percentage of insurance premiums to gross domestic product (GDP), is expected to grow to 5.0 per cent by 2020 from 4.0 per cent in 2013.

Life insurance penetration had consistently gone up from 2.15 per cent in 2001 to 4.6 per cent in 2009, before slipping to 4.4 per cent in 2010, 3.4 per cent in 2011 and further slipping to 3.17 per cent in 2012. It increased to 4 per cent in 2013. The insurance penetration of the non-life insurance sector in the country has remained near constant in the range of 0.56 per cent in 2001 to 0.60 per cent in 2009. However, it rose to 0.78 in 2012, but fell again to 0.70 in 2013 (Table I).

Insurance density in India

Another measure of insurance development is per capita spending on insurance. Known as insurance density, it is calculated as the ratio of total premium to the population (per capita premium). By this measure, India is among the lowest-spending nations in Asia in respect of purchasing insurance. One factor that has been slowing down insurance density is India's relatively high population growth rate.

Table I

Insurance Penetration and Density in India

Year	Life		Non-life	
	Density (US$)	Penetration (in per cent)	Density (US$)	Penetration (in per cent)
2001	9.1	2.15	2.4	0.56
2002	11.7	2.59	3.0	0.67
2003	12.9	2.26	3.5	0.62
2004	15.7	2.53	4.0	0.64
2005	18.3	2.53	4.4	0.61
2006	33.2	4.10	5.2	0.60
2007	40.4	4.00	6.2	0.60
2008	41.2	4.00	6.2	0.60
2009	47.7	4.60	6.7	0.60
2010	55.7	4.40	8.7	0.71
2011	49.0	3.40	10.0	0.70
2012	42.7	3.17	10.5	0.78
2013	54.31	4.0	9.0	0.70

Source: IRDA Annual Report 2013

After liberalisation in the Indian economy, total insurance density has experienced an upward trend, increasing from US$ 11.50 in 2001 to US$ 63.3 in 2013. Life insurance density surged from US$ 9.10 in 2001 to US$ 55.70 in 2010, but fell slightly to US$ 49 in 2011. The life insurance sector is far ahead of the non-life insurance when it comes to total insurance density, which grew sharply after the privatisation of the insurance sector. Non-life insurance density increased from US$ 2.40 in 2001 to US$ 9 in 2013 (Table I).

A global comparison of insurance penetration and density

Insurance penetration in India for life insurance, which stood at 3.2 per cent in 2012, was below the world average of 3.7 per cent (Table II). However, non-life insurance penetration in India, which stood at 0.8 per cent in the same year, was well below the world average of 2.8 per cent. It is interesting to note that the penetration in India is way below the penetration levels in major Asian economies such as Hong Kong, Japan, Taiwan, South Korea, Malaysia and Singapore; however, insurance penetration in India is above China, Pakistan and Sri Lanka.

Insurance density in India for life insurance, which stands at US$ 42.70, is well below the world average of US$ 372.60 (Table II). Similarly, insurance density for non-life insurance, which stands at US$ 10.50, is well below the world average of US$ 283.10 in 2012. It is interesting to note that the insurance density in Malaysia is eight times as high as in India. Pakistan and Sri Lanka are laggards in terms of their insurance density.

Role of the insurance sector in economic development

Investments are necessary for the economic development of a country, and are made from savings. Life insurance is a major instrument for the mobilisation of savings of people,

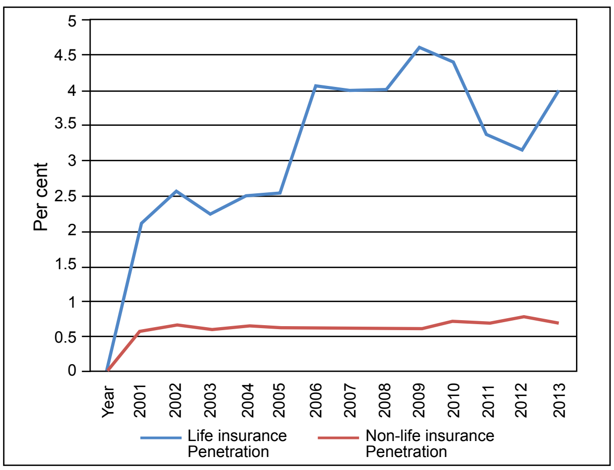

Fig. 1: Insurance penetration in India

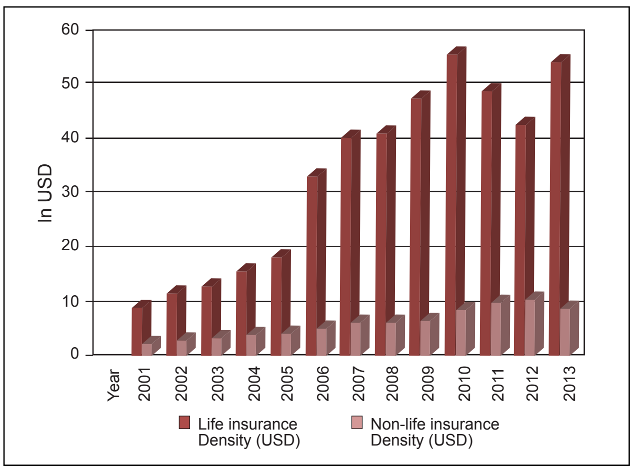

Fig. 2: Insurance density in India

Table II

A Global Comparison of Insurance Penetration and Density

Countries	Insurance penetration (in per cent)				Insurance density (in US$)			
	2011		2012		2011		2012	
	Life	Non-life	Life	Non-life	Life	Non-life	Life	Non-life
Australia	6.0	3.0	5.6	2.8	4094.0	2077.0	3922.3	1987.7
Brazil	3.2	1.7	3.7	2.0	398.0	208.0	414.2	225.5
France	9.5	6.2	8.9	5.6	4041.0	2638.0	3543.5	2239.2
Germany	6.8	3.2	6.7	3.1	2967.0	1389.0	2804.6	1299.3
Russia	2.4	0.1	1.3	0.1	303.0	8.0	182.4	12.1
Switzerland	10.0	5.5	9.6	5.3	8012.0	4421.0	7522.1	4121.1
United Kingdom	11.8	8.7	11.3	8.4	4535.0	3347.0	4350.2	3255.8
United States	8.1	3.6	8.2	3.7	3846.0	1716.0	4047.3	1808.1
Asian countries								
Hong Kong	11.4	10.1	11.0	1.4	3904.0	3442.0	4024.7	519.2
India	**4.1**	**3.4**	**3.2**	**0.8**	**59.0**	**49.0**	**42.70**	**10.50**
Japan	11.0	8.8	9.2	2.3	5169.0	4138.0	4142.5	1024.5
Malaysia	5.1	3.3	3.1	1.7	502.0	328.0	329.9	184.3
Pakistan	0.7	0.4	0.4	0.3	8.0	4.0	5.3	3.4
PR China	3.0	1.8	3.0	1.8	163.0	99.0	102.9	76.0
Singapore	5.9	4.3	5.9	4.3	3106.0	2296.0	2471.8	890.2
South Korea	11.6	7.0	11.6	7.0	2661.0	1615.0	1578.1	1207.3
Sri Lanka	1.2	0.6	1.2	0.6	33.0	15.0	14.8	18.2
Taiwan	17.0	13.9	17.0	13.9	3371.0	2757.0	3107.1	652.5
Thailand	4.4	2.7	3.0	2.1	222.0	134.0	156.5	109.7
World	**6.6**	**3.8**	**3.7**	**2.8**	**661.0**	**378.0**	**372.60**	**283.10**

Source: IRDA Annual Report 2013

Table III

Region-wise Market Share in Life and Non-life Insurance in 2012

Region	Life	Non-life	Total
Advanced economies	57.6	42.4	100
Emerging markets	52.4	47.6	100
Asia	28.9	71.1	100
India	80.2	19.8	100
World	56.8	43.2	100

Source: Swiss Re, Sigma 3/2013

Table IV

Number of Registered Insurers in India

Type of business	Public sector	Private sector	Total
Life insurance	1	23	24
Non-life insurance	6	21	27
Reinsurance	1	0	1
Total	**8**	**44**	**52**

Source: IRDA Annual Report 2013

particularly from the middle and lower income groups. All good life insurance companies accumulate huge funds through small amounts of premium paid by individuals. These funds are invested in ways that contribute substantially to the economic development of the countries in which these companies do business. The system of insurance provides numerous direct and indirect benefits to individuals and their families, as well as to industry and commerce, and to the community and the nation as a whole.

India's insurance industry has grown tremendously since the establishment of the Insurance Regulatory and Development Authority (IRDA), which supervises and controls the entire insurance sector. It is playing a very important role in India's insurance industry by enabling an increase in the number of insurers—both in the life and non-life sectors, growth in insurance penetration and density, increase in number of policies issued and increase in the speed of claims settlements.

Insurance has had a very positive impact on India's economic development. The sector is gradually increasing its contribution to the country's GDP, which is being ploughed into the infrastructure sector in the form of increased investments each year. Insurance has also given the employment scenario in India a boost by providing direct as well as indirect employment opportunities. Due to the healthy performance of the Indian economy, the share of life insurance premiums in the gross domestic savings (GDS) of the household sector has increased. This increased contribution from the household GDS has been ploughed back into the economy, generating higher growth.

Indian insurance in the global scenario

Table III shows that, globally, the share of life insurance in total insurance premiums was 56.8 per cent in 2012. However, the share of life insurance in total insurance premiums was only 28.9 per cent in the Asian region, which is in contradiction with the global trend. In India, the share of life insurance premiums in total insurance was very high at 80.2 per cent, while the share of non-life insurance premiums was small at 19.8 per cent.

Table V

Gross Domestic Product and Insurance Penetration in India

Year	Per capita GDP (in US$)	GDP growth (in per cent)	Insurance penetration (in per cent)
2000	564.21	5.8	2.32
2001	576.93	3.9	2.71
2002	595.60	4.6	3.26
2003	608.99	6.9	2.88
2004	647.10	7.6	3.17
2005	687.31	9.0	3.14
2006	740.12	9.5	4.80
2007	797.26	10.0	4.70
2008	863.46	6.9	4.60
2009	885.17	5.9	5.20
2010	947.75	10.1	5.10
2011	1034.24	7.9	4.10
2012	1085.23	4.5	3.95
2013	1106.80	4.9	4.70

Source: www.tradingeconomics.com and World Bank report

In life insurance business, India is ranked 10th among 88 countries. During 2012, life insurance premiums declined by 6.9 per cent in India. Table IV shows that there are 23 private sector firms providing life insurance in India, who have commenced operations over the period 2000–2010. At present, India has eight registered companies in the public sector and 44 registered companies in the private sector that are providing insurance services.

Role of FDI in the growth of the insurance sector

The rising importance of insurance in the globalised world is evident from the increased number of players in both the domestic and international markets (IRDA). India, being one of the fastest-growing economies in the world after China and an attractive foreign direct investment (FDI) destination, has the potential to significantly increase the market of its insurance industry. In 2006-07, the services sector (financial and non-financial) constituted around 30 per cent of FDI equity inflows compared to 12.5 per cent in 2004-05 (according to the Department of Industrial Policy and Promotion). Constantly rising disposable incomes, coupled with the high potential demand for insurance offerings, has opened many doors for both domestic and foreign insurers. FDI can help to increase insurance penetration in the economy, in both rural and urban India, helping in inclusive growth. Further, FDI in the insurance sector will help to develop the life and non-life insurance markets in India, as foreign players have a high level of expertise and technical knowhow in the insurance and reinsurance business. In India, General Insurance Corporation (GIC) is the sole reinsurer, which provides immense opportunity for other private and foreign players to tap the reinsurance market.

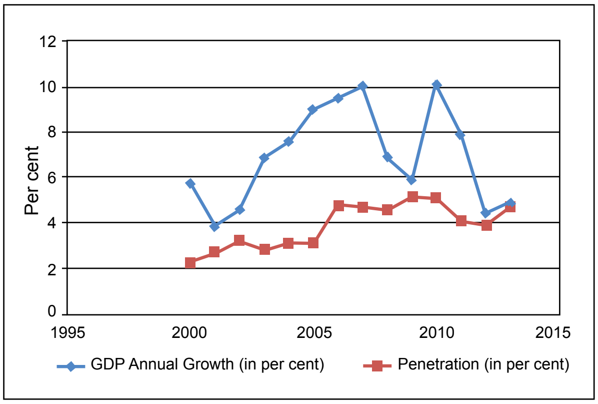

Fig. 3: GDP growth and insurance penetration in India

The relationship between GDP and insurance penetration

India is the world's tenth largest economy and the second most populous. The most important and the fastest growing sector of the Indian economy is the services sector. Trade, hotels, transport and communication; financing, insurance, real estate and business services; and community, social and personal services account for more than 60 per cent of India's GDP. Various studies indicate that there is a positive correlation between the per capita GDP and total insurance penetration in an economy. Table V shows that as per capita GDP in India increased from US$ 564.21 in 2000 to US$ 947.75 in 2010, insurance penetration also increased from 2.32 per cent in 2000 to 5.10 per cent in 2010. However, post 2010, though per capita GDP continued to increase, the insurance penetration in the country stagnated.

Life insurance penetration in India is about 4.0 per cent of gross domestic product in terms of total premiums underwritten in a year, much lower than 11.5 per cent in Japan and 19.7 per cent in UK. A low and uneven development of insurance, especially in the non-life insurance business, hampers economic activities. There is a need to speed up the growth of the insurance sector to make it competitive at a global level. The government should act as a promoter and facilitator of insurance services, and bring the insurance sector up to the standards of the global market. ■

Dr S. Amutha Rani is assistant professor in post-graduate commerce at Sri Kaliswari College, Sivakasi, Tamil Nadu. P. Jeyachitra is an M. Phil scholar in the same college