Indian Insurance Market-An Overview

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Abstract:

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.

Introduction:

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 specialised 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.

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

Role of IRDA

Consumers today are faced with a variety of options and products in different areas of goods and services and insurance is no exception. Insurance is infact one of the most complicated areas in the financial sector with prospects finding it difficult to assess the various products available in the market in order to make the right choice. It is the need of the hour to demystify the concepts of insurance with a view to educating prospects and the public in general, about the option of insurance and understand what insurance really means and strives to do. The Consumer Education website of IRDA is a step in this direction. The IRDA is already working on the Hindi version of this website and we hope to be able to launch it as soon as possible. Our objective is also to enable this website in various other Indian languages so that we can reach out to as many individuals as possible in this vast country of ours.

The mandate of IRDA is not only to regulate the insurance sector keeping in view the interests of the policyholder but also to develop it. One of the functions we carry out with the development objective in mind is working towards improvement of Financial Literacy and Consumer Education in insurance in the country.

Insurance market in India

With 36 crore policies, India's life insurance sector is the world's largest. The life insurance industry in the country is forecasted to increase at a compound annual growth rate (CAGR) of 12–15 per cent in the next five years. The industry aims to hike penetration levels to five per cent by 2020, and has the potential to touch US$ 1 trillion over the next seven years. The cap on foreign direct investment (FDI) also looks likely to be increased from 26 per cent to 49 per cent. The Insurance Bill which has been approved by the Government of India and will in all possibility be cleared by the Parliament is expected to increase FDI inflows to US$ 10 million in the short term.

Market Size

The total market size of the insurance sector in India was US$ 66.4 billion in FY 13. It is projected to touch US$ 350–400 billion by 2020. Information technology (IT) services, the biggest spending segment of India's insurance industry at Rs 4,000 crore (US$ 666.78 million) in 2014, is expected to continue enjoying strong growth at 16 per cent. Category leaders are business process outsourcing (BPO) at 25 per cent and consulting at 21 per cent. Indian insurance companies are expected to spend Rs 117 billion on IT products and services in 2014, a 5 percent increase from 2013.

According to Gartner Inc., this forecast includes expenditures of insurers on internal IT (including personnel), hardware, software, external IT services and telecommunications. Indian insurance companies are on pace to spend 4.1 billion rupees on mobile devices in 2014, up 35% from 2013. "Gartner research shows that most Indian insurance CIOs view mobile enablement of applications and services as a very important component of their strategies to improve sales and channel effectiveness," said Derry Finkeldey, research director at Gartner. "This is especially important as insurers compete to reach agents and customers distributed across the country and outside of saturated urban markets," he added.

The overall mobile device market in India is showing strong growth. For example, the nascent tablet market in India is projected to grow 160 in 2014. As the tablet market breaks through the Rs 200 million marks this year, growth is expected to be in the moderate double-digits range. The much larger Rs 3.8 billion market for other mobile devices will grow 24 percent in 2014, with revenue of Rs 926 million. While the 11 billion rupee mobile network services market is growing, its Rs 12.8 billion fixed network sibling is in decline and will be overtaken in size by mobile spending by 2016

India ranked 10th among 147 countries in the life insurance business in FY 13, with a share of 2.03 per cent. The life insurance premium market expanded at a CAGR of 16.6 per cent from US$ 11.5 billion to US$ 53.3 billion during FY 03–FY 13. The non-life insurance premium market also grew at a CAGR of 15.4 per cent, from US$ 3.1 billion in FY 03 to US$ 13.1 billion in FY 13. Global re-insurer Swiss Re's sigma study on world insurance in 2013 said India stood at 15th position in the world in terms of premium volume. In 2012, it was at 14th position. The study showed insurance penetration in India fell to 3.9 per cent in 2013 compared to four per cent in 2012.

India's life insurance penetration was 3.1 per cent, while in non-life insurance it was 0.8 per cent. Insurance density stood at $52 (about Rs 3,120) compared to $53 (about Rs 3,180) in 2012. In the world average too, both insurance penetration and density saw a fall. Globally, premiums written in the global insurance industry grew by 1.4 per cent in real terms to $4,641 billion in 2013 after a 2.5 per cent increase in 2012, said its latest sigma study. Insurance penetration refers to premiums as a percentage of GDP, whereas insurance density (measured in $) refers to per capita premium or premium per person.

The slowdown was primarily due to weakness in the life sector in advanced markets. Global life premiums were up only 0.7 per cent in 2013, with weak sales in North America and the advanced Asian markets offsetting a strong performance in Western Europe, Oceania and most emerging markets. Non-life premiums grew by 2.3 per cent, also less than the previous year, as growth slowed in the advanced and emerging markets. Overall profitability in the life and non-life sectors improved, despite the impact of still low interest rates on investment returns.

India saw a 0.5 per cent growth in life premiums for the period, whereas non-life premiums saw a 4.1 per cent growth. Total premiums for India stood at $66 billion (Rs 3.9 lakh crore approximately), up by 1.2 per cent. World premiums were up by 1.4 per cent at $4641 billion (Rs 278.46 trillion approximately). Premium growth in the advanced Asian markets was flat relative to the previous year, further offsetting the sector's strong performance in other regions. At global level, life premiums grew by just 0.7 per cent in 2013 to $2,608 billion -- down from 2.3 per cent growth in 2012. Premiums in the US contracted sharply by 7.7 per cent due to the non-recurrence of large corporate deals which had boosted group annuity business in 2012.

The study said life premium growth was expected to resume in the advanced and improve in the emerging markets. The firming economy and labour markets in the advanced markets will support the life and non-life sector, and growth in the emerging markets should hold up also. “In the life sector, China and India in particular should see a return to higher growth rates,” said the Swiss re sigma study.

Overall profitability has improved in the life and non-life sectors. However, the study said investment returns, an important component of insurers' earnings, remain low given the very low level of interest rates since the 2008 financial crisis. The government has proposed dropping a crucial rider for increasing the foreign direct investment (FDI) limit in the insurance sector to 49 per cent from the current 26 per cent. The earlier proposal was that the higher FDI limit would be allowed only for health insurers.

A draft note to the Cabinet, prepared by the Department of Financial Services on the official amendment to the Insurance Amendment Bill, 2008, has dropped the rider. The idea about enhanced FDI limits in only certain areas of the insurance sector was not tenable, as both life as well as general insurance areas required access to capital, the note said. In any case, most general insurance companies were already offering health insurance, the note said.

In its proposal to increase the total holding of a foreign company to 49 per cent, the department, however, has stuck to its earlier stand that caps voting rights at 26 per cent - the current investment cap. Also, the chief executive officer (CEO) of the insurance company will be appointed by Indian shareholders subject to approval of a competent authority and a majority of the company's directors will have to be Indians. The proposal says the official amendment will incorporate suitable safeguards on foreign equity investment in the insurance sector while enhancing the overall cap to 49 per cent. Industry players feel the government has taken this decision to reduce voting in order to facilitate the passage of the Bill. Said Amitabh Chaudhry, managing director & CEO, HDFC Life: "It is a good first step. I would believe that the government wants to reduce the voting rights because it would make the passage of the Bill easier."

According to industry sources, the rise in FDI would bring in around $1 billion (around Rs 6,000 crore) of foreign investment. Insurance penetration has been falling in India consistently. Between 2008-09 and 2013-14, insurance penetration has fallen from 4.6 per cent to 3.9 per cent, according to a Swiss Re sigma study. In a meeting held on May 31, chaired by the finance secretary with all the stakeholders, including the Life Insurance Council, General Insurance Council and insurance players, issues related to the capital needs of the insurance sector were discussed. Insurers, in fact, had proposed that ideally the increase in limit without any qualification. They were also sceptical about restricting FDI in insurance to only one particular sector, say medical insurance.

Insurance players, however, felt the government was being overcautious because in case of banks which manage depositors' money, foreign holdings of 75 per cent are allowed. Also, they said even if voting rights were increased to 49 per cent, it wouldn't have made any substantial difference because the joint venture agreements were tight enough to protect Indian shareholders. "With the reduction in the voting rights, foreign players may seek a discount now," said Chaudhry. However, insurance players also admit since the Bill has been in cold storage for a long time, any forward looking move was welcome. The Bill has been pending in the Rajya Sabha since 2008. Said K K Mishra, CEO, Tata AIG General Insurance: "This Bill has been pending for so long that I believe that whatever the government plans to do, it should do fast."

The insurance sector finally had its moment in the sun after the Budget increased the FDI limit in insurance to 49 per cent. After the insurance sector opened up in 2000, both life and general insurance businesses have gone though a series of regulatory changes. Until recently, only few insurance players were profitable. Also, the lack of valuation benchmarks in the listed space has kept investor interest tepid. But now, many players, both in the life and general insurance space, have turned around and are profitable.

Capital-intensive

With a possible recovery in the economy, and structural changes done with, insurance players are likely to get a leg-up. The much-awaited increase in the FDI limit in insurance to 49 per cent will help the insurance industry in two ways. One, this help companies access capital more easily, which is huge positive, given that the insurance sector is capital intensive. Two, this could act as a trigger for listing of insurance players, which will provide a better yardstick to value these companies. For many conglomerates in the financial services space, their insurance subsidiaries are still undervalued, in spite of accounting for a substantial portion of their earnings.

Valuations

Companies such as Max India, Reliance Capital, Bajaj Finserv and Sundaram Finance will see substantial value unlocking. For instance, more than 75 per cent of Max India's value (sum-of-the-parts) valuation comes from the life insurance business. For Bajaj Finserv, 44 per cent of its value comes from the life insurance business and 28 per cent from the general insurance business. For Reliance Capital, 35 per cent of its value comes from the life insurance business and 13 per cent comes from the general insurance business.

Key Investments

The following are some of the major investments and developments in the Indian insurance sector:

- ING Vysya Life Insurance recently changed its name to Exide Life Insurance. For FY 2013– 14, the company doubled its profits to Rs 53 crore (US$ 8.83 million) on the back of renewal premium and better efficiency and product mix.

- HDFC Life has launched a participating children's plan which has money back options. The plan named 'HDFC Life Youngstar Udaan' enables parents to use the key formative years of their children to plan for their secure future. The plan caters to critical milestones such as the child's education, marriage, establishment of business, etc.

- Star Health and Allied Insurance Co Ltd on has launched a modified diabetes insurance policy by the name Star Diabetes Safe. The policy covers regular hospitalisation expenses, regardless of the number of years the individual has been living with the condition, as per Mr V Jagannathan, Chairman and Managing Director, Star Health.

- About three of every four insurance policies sold by 2020 would be in some way influenced by digital channels during the pre-purchase, purchase or renewal stages, as per a new report by Boston Consulting Group (BCG) and Google India. This report, Digital@Insurance-20X By 2020, forecasts that insurance sales from online channels will grow 20 times from present-day sales by 2020, and overall internet influenced sales will touch Rs 300,000–400,000 crore (US$ 50.02–66.70 billion).

- Investment corpus in India's pension sector is projected to cross US$ 1 trillion by 2025, following the passage of the Pension Fund Regulatory and Development Authority (PFRDA) Act 2013, as per a joint report by CII–EY on Pensions Business in India.

- Insurance companies in the country will spend about Rs 12,100 (US$ 2.01 billion) crore on IT products and services in 2014, a 12 per cent increase over 2013, according to Gartner Inc. The forecast includes spending by insurers on internal IT (including personnel), software, hardware, external IT services and telecommunications. The Rs 1200-crore (US$ 200.16 million) software segment is predicted to be the fastest external segment, with overall growth of 18 per cent in 2014.

- Insurance companies in India launched awareness initiatives on April 19, 2014 on the occasion of Insurance Awareness Day. Insurance Regulatory and Development Authority (IRDA) had earmarked April 19 as Insurance Day, as the sector regulator was formed on that day. IRDA plans to partner with organisations through its Bima Bemisaal (brand name for the organisation's insurance awareness campaign) campaign to drive home the significance of insurance among the populace.

Government Initiatives

In a bid to facilitate banks to provide greater choice in insurance products through their branches, a proposal will likely be made which will allow banks to act as corporate agents and tie up with multiple insurers. A committee established by the Finance Ministry of India is likely to suggest this model as an alternative to the broking model. Public sector banks will soon be offering their customers a choice of insurance products from different companies as against products from a single company. The Finance Ministry of India has written to public sector banks, asking them to turn into insurance brokers instead of corporate agents. "By becoming brokers, banks would now be directly responsible for mis-selling as against earlier when they were seen to be acting as agents of insurance companies," said Mr Sam Ghosh, CEO, Reliance Capital.IRDA body Insurance Information Bureau (IIB) has created a registry of healthcare providers and allocated them unique IDs. By creating this database, the regulator plans to build an analytics capability for spotting endemics, evaluating medical cost inflation, and detecting fraud.

Conclusion:

The insurance sector's future looks bright, on the back of India's favorable demographic, greater awareness, supportive regulatory environment, policies that improve customer-centric products, and practices that help businesses grow. India's insurable population is projected to touch 75 crores in 2020, with life expectancy reaching 74 years. Life insurance will continue to supplement household financial savings, and is projected to be 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009–10.

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