

## CHAPTER 25

### INSURANCE

**25.1 Global Insurance Industry :** The insurance industry faced a difficult economic environment in 2011. While global life insurance premiums fell, non life insurance prices began to harden in some markets and premiums grew. Overall direct premiums declined 0.8 % in real terms. However, direct premiums reached a record high of USD 4597 billion in nominal terms, increasing 6% over 2010 as the US Dollar depreciated against major international currencies. Historically low interest rates and extraordinarily costly natural catastrophe ( earthquake in Japan, Flood in Thailand etc) events affected insurers overall results. Yet the industry was able to maintain its capital strength because falling interest rates increased insurers asset values but not their liabilities.

#### Real Premium Growth in 2011

Markets	Life	Non-life	Total
Advanced	-2.3%	0.5%	-1.1%
Emerging	-5.1%	9.1%	1.3%
<b>World</b>	<b>-2.7%</b>	<b>1.9%</b>	<b>-0.8%</b>

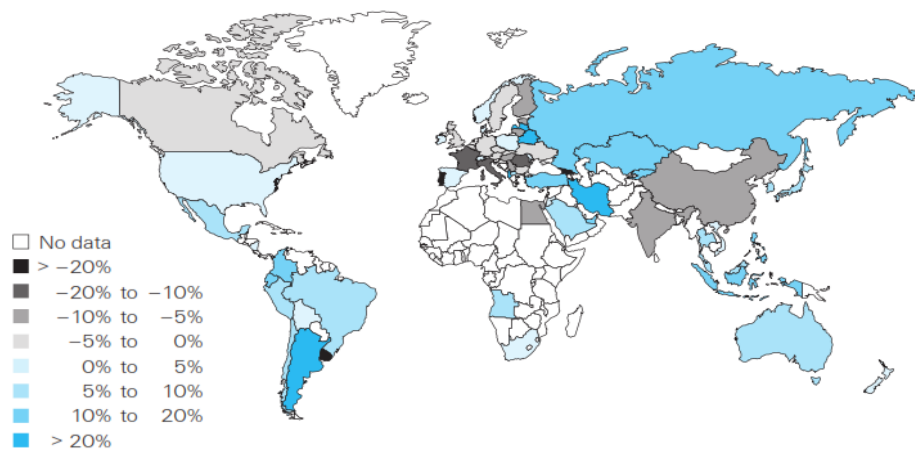
25.2 Global life insurance premiums shrank 2.7 %. Advanced markets contracted 2.3 %, with the sharpest decline observed in Western Europe (-9.8%). Meanwhile the US market resumed moderate growth (2.9%). Japan and newly industrialised Asian countries grew at 4.4%, well above their ten year average . In emerging markets premium growth proved robust in most cases, but was negative overall due to steep premium drops in China and India in the wake of regulatory changes that restricted the use of certain distribution channels. The low interest rate environment also continued to weigh on life insurers' investment results. In 2012, life premium growth is likely to remain sluggish in advanced economies, but is expected to resume in emerging markets as Chinese and Indian insurers adapt to the new regulations.

25.3 In part due to Euro zone crisis, non life premium growth was weak (1.9 %) in 2011. In advanced markets premiums grew only by 0.5 % compared to robust but slower growth (9.1%) in emerging markets. Results were also impaired by worst catastrophe losses in 2011. The growth is expected to remain modest in difficult economic environment.

25.4 India's ranking in the world insurance market dropped by four places to 15<sup>th</sup> in 2011 as its share in world insurance market declined to 1.58 % in 2011( from 1.8 % in 2010) .This was largely

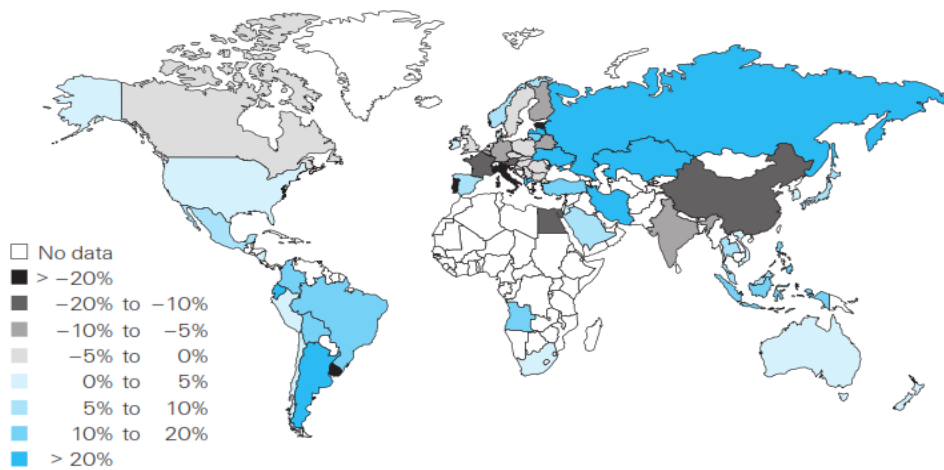
on account of drop in life insurance premiums. Countries like Brazil & Spain now rank higher .

### Total Premium Real Growth rates in 2011

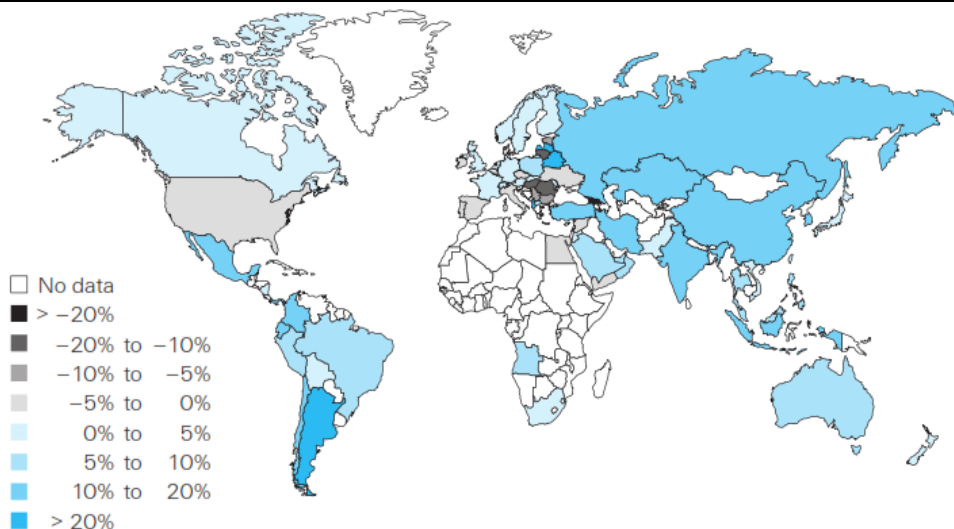


Source: Swiss Re Economic Research & Consulting

### Life Real Premium Growth in 2011

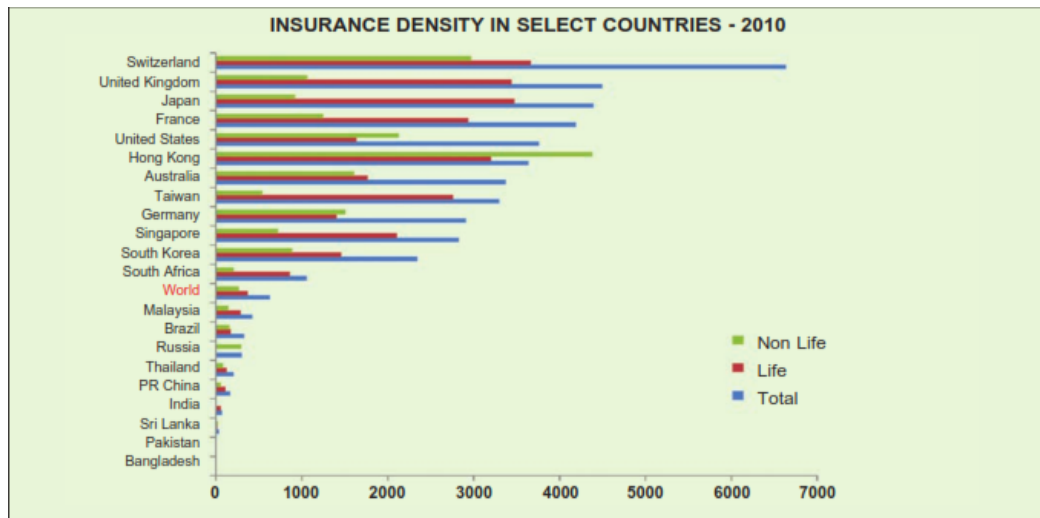


### Non Life – Real Premium Growth in 2011

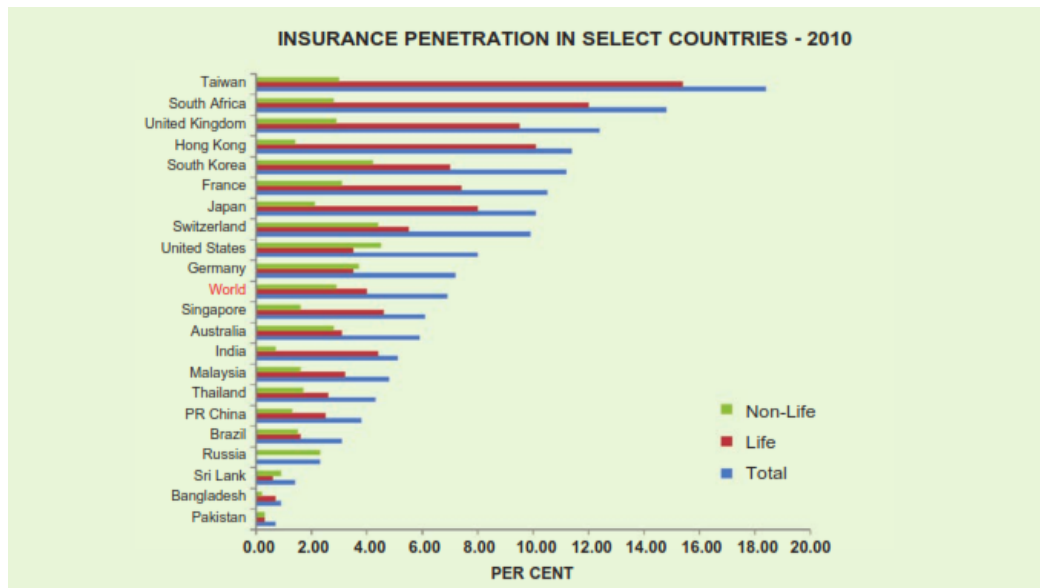


**25.5 Insurance Density & Penetration:** In 2011, Insurance density in advanced markets increased to USD 3712 per capita (versus USD 118 in emerging markets) while penetration shrank to 8.6 %. After 15 years of increasing insurance penetration in emerging markets, overall insurance penetration declined slightly for the first time to 2.7 %. Although penetration declined in China and India, it continued to increase in Russia and resumed its uptrend in Brazil.

Cross sectional view of insurance density & premium during 2010 is given below:



Source: Swiss Re, Sigma No. 3/2011. Data is in USD.



Source: Swiss Re, Sigma No. 3/2011



While 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).

**25.6 Origin of Insurance:** Insurance, in its most basic form, is sharing of risk. It initially started as an informal exercise amongst traders in Europe. Trade in those days were being carried out by ships and the traders knew that there were definitely going to be losses due to pirates or bad weather and sometimes Ice-bergs. But what these traders were not sure of were as to which ship would face the disaster. However, the trader whose ship faced a disaster was left in penury. This led to an informal association of sorts, where the Traders contributed some money into a fund, which was used to compensate the loss of the individual trader.

**25.7 Genesis & Development of Insurance in India- Acts & Regulations :** Insurance has a deep-rooted history in India too, finding mention in the writings of Manu (Manusmriti), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

25.8 The year 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. The year 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

25.9 In 1914, the Government of India started publishing returns of Insurance Companies in India. **The Indian Life Assurance Companies Act, 1912** was the first statutory measure to regulate life business. In 1928, the **Indian Insurance Companies Act** was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In

1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

25.10 **The Insurance Amendment Act of 1950** abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

25.11 An Ordinance was issued on 19<sup>th</sup> January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

25.12 The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business. The year 1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

25.13 In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then. In 1972 with the passing of the **General Insurance Business (Nationalisation) Act**, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973.

25.14 This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a **committee under the chairmanship of**

**R.N. Malhotra**, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

25.15 Following the recommendations of the Malhotra Committee report, in 1999, the **Insurance Regulatory and Development Authority (IRDA)** was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

25.16 The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

25.17 In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

25.18 Today there are 24 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life insurance companies operating in the country.

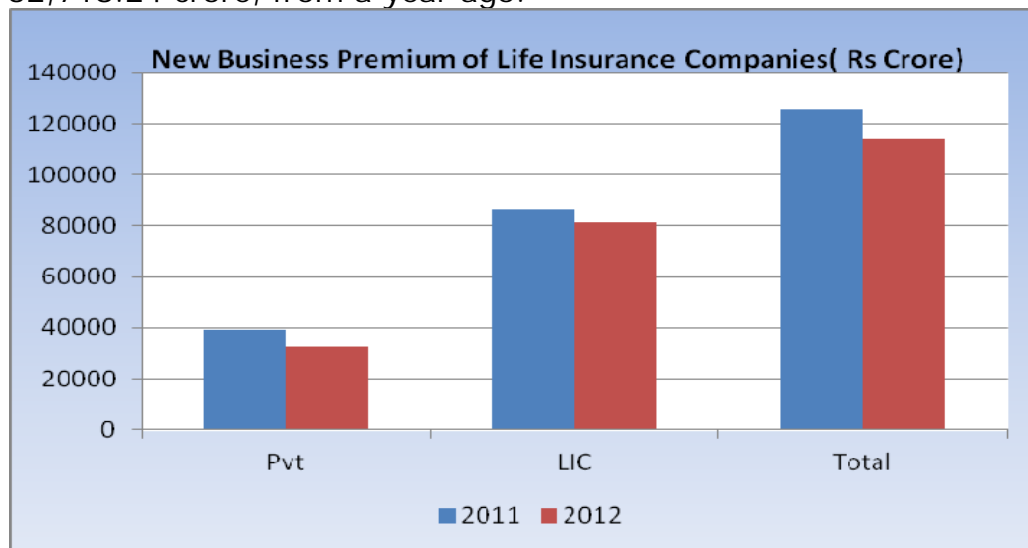
25.19 The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

## Appraisal of Indian Insurance Sector :

25.20 **Registered Insurers in India:** At end-September 2011, there were forty-nine insurance companies operating in India; of which **twenty four** are in the **life insurance** business and another **twenty four** are in **general insurance** business. In addition, **GIC is the sole national re-insurer**. Of the forty-nine companies presently in operations, eight are in the public sector: two specialized insurers, namely ECGC and AIC, one in life insurance, four in general insurance and one re-insurance. The remaining forty one companies are in the private sector.

### Life Insurance – Premium :

25.21 Total new business premium of life insurance companies in the country declined by 9.2 per cent to Rs 1,14,232.73 crore in 2011-12 fiscal year. It was at Rs 125,826.03 crore a year ago. Market leader LIC, a public sector life insurer, recorded 6.05 per cent decline in first year premium collection to Rs 81,514.49 crore, from Rs 86,444.72 crore a year ago. The combined first year premium of private sector life insurers, declined 16.9 per cent to Rs 32,718.24 crore, from a year ago.



LIC's market share stood at 71 per cent at the end of March, 2012.

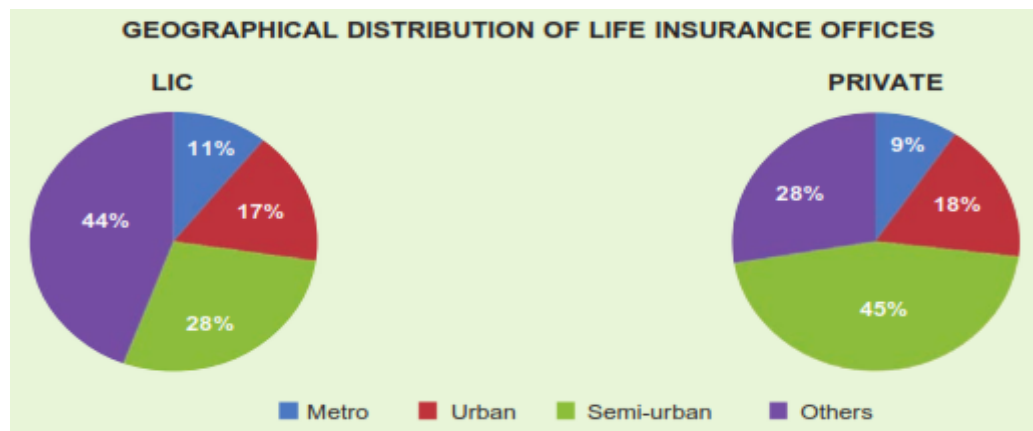
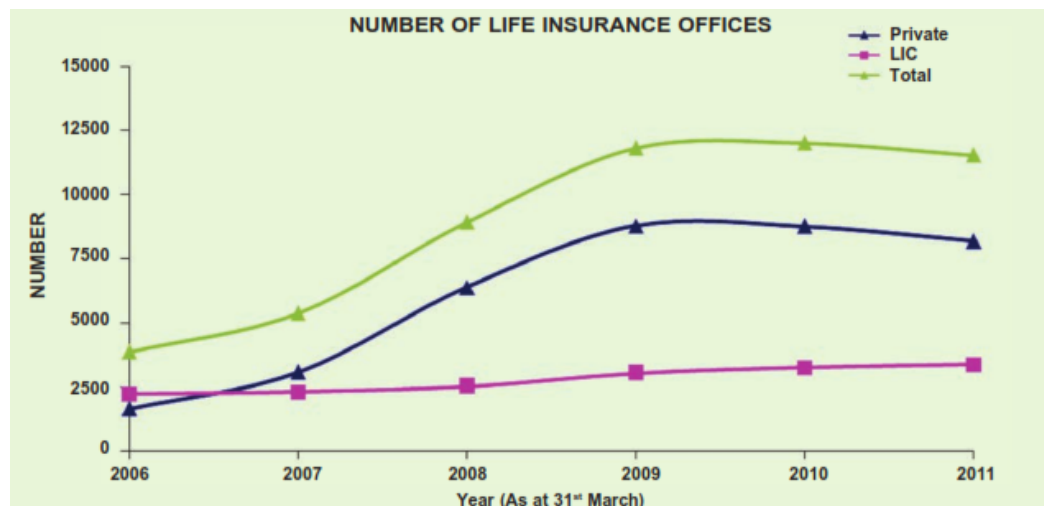
### Postal Life Insurance & Rural Postal Life Insurance:

25.22 Postal Life Insurance & Rural Postal Life Insurance recorded 22.56 and 40.26 % growth in premium during 2011-12 compared to previous year.

	Postal Life Insurance(PLI)			Rural Postal Life Insurance(RPLI)		
	Premium Income	Increase over previous year	% growth over Previous year	Premium Income	Increase over previous year	% growth over Previous year
2010-11	3003.33	590.58	24.47	1111.48	-245.83	-18.11
2011-12	3681.03	677.70	22.56	1558.94	447.46	40.26

### Expansion & Distribution of Life Insurance Offices:

25.23 During 2010-11, there was a decrease in the number of life insurance offices in India. While private insurers closed 593 offices, the public sector insurer LIC established 121 new offices. With this, the number of offices of life insurers declined from 12,018 as on 31 March, 2010 to 11,546 as on 31 March, 2011



### Non life Insurance Premiums:

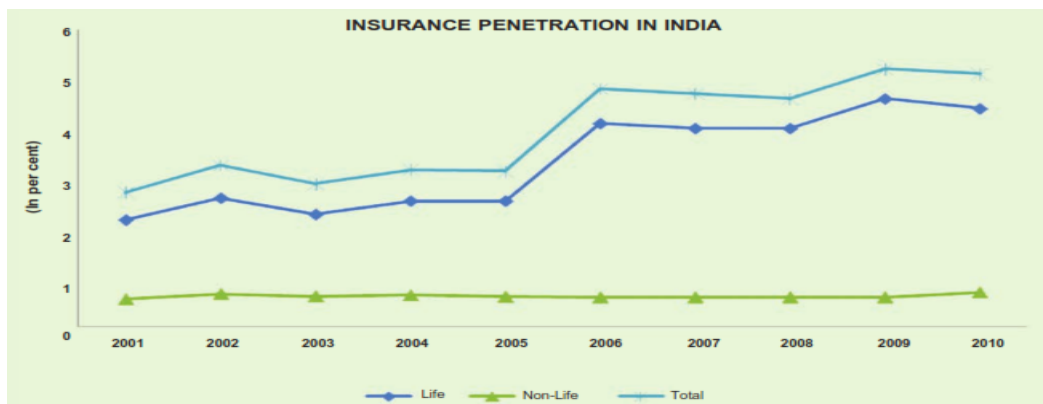
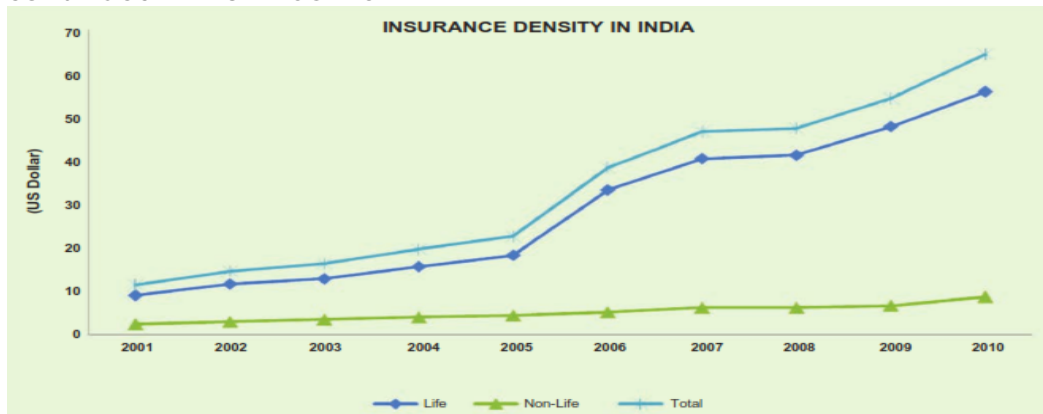
25.24 India's non-life insurance industry is in a nascent stage. Insurance penetration is very low, except for compulsory third-party



motor insurance. However, privately held insurers are increasingly looking to penetrate health insurance.

25.25 The non-life insurers, however, showed an increase in their premium collection during 2011-12 to Rs 58,344.16 crore, up 23.2 per cent over Rs 47,372.78 crore in 2010-11. During the period , private sector collection increased by about 25 % to Rs 24,230 crore from Rs 19,383 crore whereas the public sector companies collected premium of Rs 34,114 crore recording an increase of about 21% over the previous years collection(Rs 27,990 crore ).

25.26 **Insurance Penetration & Density:** Insurance density of life insurance sector has seen increased to USD 55.7 in 2010 .Insurance penetration had also gone up till 2009 but slid down to 4.4 % in 2010. The downward trend in insurance penetration continued in 2011 as well.



25.27 **Sources of Insurance Statistics in India :** Insurance statistics can be grouped under the following categories:

- ✚ Life Insurance Statistics
- ✚ Non-life (General) Insurance Statistics
- ✚ Reinsurance Statistics
- ✚ Pension and Super-annulations Statistics
- ✚ Health Insurance Statistics
- ✚ Crop Insurance Statistics
- ✚ Other Insurance Statistics like ESI, Postal Insurance, Army Insurance, and the like.

The data presently collected by the Life Insurance Company (LIC) and the General Insurance Company (GIC) largely meet their own requirements to assist management decisions, design strategy, formulate business plans, examine the market sizes, and changes in market environment, etc. The annual reports of LIC and GIC provide statistical information on various aspects of insurance statistics in their organisations. The General Insurance companies also supply statistical information to the Tariff Advisory Committee (TAC) in prescribed proforma to perform its function of scientific rating and pricing for general insurance products. The insurance companies also supply statistical information on assets and liabilities, sources of funds and deployment of funds and other aspects to RBI (quarterly/annual) as a part of the survey of Financial Sector. The statistical system prevalent in these two agencies is given below:

25.28 The **Life Insurance Corporation (LIC)** collects information on various aspects of its operations, such as:

- ✚ Individual insurance business information-new business and sum assured, premium income, number of policies, rural and urban business, social sector schemes, etc.
- ✚ Group and pension fund business – number of schemes, lives covered, premium income, etc.
- ✚ Product-related information-Sales under various policies, number of lives investment, State-wise investment, etc.
- ✚ Investment information-total investment, sectoral investment, instrument-wise investment. State- wise investment, etc.
- ✚ Claims-related information-total claims settled, claims ratios, etc.
- ✚ Cost and expenses information-total cost, management expenses, etc.
- ✚ International operation-business procurement, investment, etc.

25.29 The **General Insurance Company (GIC)** collects information on the following aspects :

- ✚ Balance sheet in respect of every class of business.
- ✚ Major claims, details of investments-category-wise and assets owned, claims settlement position with settlement ratio, premium details, class: business-wise and region-wise, documents issued with documentation percentage, investments and investment income.
- ✚ Investments, short-term loan placement, call money transactions, sanctions and disbursements.
- ✚ Rural traditional covers and rural non-traditional business, cattle, poultry, Janta Personal Accident and other covers.
- ✚ Data on foreign operations, Motor Accident Claims Tribunal (MACT) settlements, grievance redressal and details of commission and management expenses.

25.30 The **Insurance Regulatory Development Authority (IRDA)**, on the advice of the Insurance Advisory Committee, has framed fifteen regulations so far under the **IRDA Act**, which are to be followed by all insurers. It has also prescribed a number of returns to monitor various provisions of these regulations and the insurers in the life insurance business and general insurance business are required to statutorily submit these returns to the IRDA as per the periodicity and time frame specified. Most of the regulations, which require insurers to submit these returns to the IRDA, have been framed in the year 2000 only. The IRDA will be receiving these returns from the insurance companies as per the periodicity and time frame specified by it.

IRDA brings out Annual Report which provides an appraisal of Indian insurance market covering both life and non life insurance - health insurance, crop insurance etc. It also brings out Committee Reports & Journals which discuss various features of insurance sector. Monthly information on both life and non life insurance business is also available on the website of IRDA .

25.31 **Insurance Information Bureau (IIB)**, an advisory body formed by IRDA, collects transaction level data from insurers. IIB acts as a single point of official reference for the entire industry data and ensures data is available to various market players, researchers, policyholders and common public for real time decision making. IIB publishes periodical reports on Motor, Health and other lines of business. From the financial year 2010-11 IIB has started collecting transactional data (Motor, Health, Fire, Marine and Engineering) from all insurers in online mode. Online data is being

collected on monthly basis through the website [www.iib.gov.in](http://www.iib.gov.in). Insurers are able to view aggregate reports related to their company as well as of the industry, up to the level of data submission.

25.32 **Reserve Bank of India** , as a part of the survey of financial sector, maintains statistical information on assets and liabilities, sources of funds and deployment of funds etc in respect of insurance companies.

25.33 **Directorate of Postal Life Insurance, Department of Posts** maintains information pertaining to Postal Life Insurance & Rural Postal Life Insurance

**References :**

- Annual Report IRDA, 2010-11 & Website of IRDA
- World Insurance in 2011, Non life ready for take off, Sigma No. 3/2012, Swiss Re