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New Dimensions of Insurance Sector: A Study

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ABSTRACT:

The world has become a global village. The Liberalisation, Privatization and Globalisation (LPG) wave has steeped across the global economies. The two pillars of India's economic policy before 1991 have been protection and public sector.The New Economic Policy 1991 was a departure from the regulated planned economic tradition to that of LPG movement. After nearly a decade of intense debate a consensus developed in India for ending the public sector monopoly in insurance and opens the industry to private sector participants subject to suitable prudential regulation.Insurance is an industry which has value creation at its core. It generates value for policyholders who lay their trust in an insurance product, for shareholders who back the business, for distributors who depend on it for their income and the insurance company itself which interlinks all the other stakeholders. It is this interlinking, which if done in a balanced manner while keeping the costs low, creates a long-term success story.

KEY WORDS: Insurance, Liberalization

INTRODUCTION:

The insurance industry is a key component of the financial infrastructure of an economy, and its viability and strengths have far reaching consequences for not only its money and capital markets. Insurance is a policy from a financial institution that offers a person, company, or other entity reimbursement or financial protection against possible future losses or damages.
The insurance industry in India has come a long way over the last decade and a half. It has become an indispensable pillar to support India’s ascent to economic prosperity and growth by accounting for risks, providing funds for nation building projects, steadying equity markets and driving social security. In the process, it continues to create significant value for all its stakeholders i.e. customers, distributors, shareholders and the insurance companies. Indian insurance industry’s growth story since liberalization has been dramatic. Both life and non-life sectors initially witnessed a long phase of sustained high volume growth. However, the life insurance sector’s charge was halted by a much needed course correction initiated by the regulator in recent years, leading to a stagnation in growth and a question mark on the viability of the existing business models. Non-life insurance, on the other hand had a more

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consistent volume growth, but had its journey blemished by excessive claim related losses. In both these cases, much of the pain was unleashed by necessary, yet too frequent regulatory interventions, which prevented the industry from settling down. Much like the Indian market, the global insurance scenario remains sober with persistent low interest rates (impacting margins), soft pricing conditions in the non-life sector and frequent regulatory reforms.

The Government of India in 1993 had set up a high powered committee by R.N.Malhotra. The comprehensive regulation of insurance business in India was brought into effect with the enactment of the Insurance Act, 1983.

The insurance sector continues to defy and stall the course of financial reforms in India. It continues to be dominated by the two giants, Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC), and is marked by the absence of a credible regulatoryauthority.

The first sign of government concern about the state of the insur¬ance industry was revealed in the early nineties, when an expert committee was set up under the chairmanship of late R.N. Malhotra.

Nevertheless, one major fact which differentiates the developed markets with the Indian market is India's unbeatable growth potential which in t urn is derived from India's low insurance penetration (overall 3.3% - life 2.6%, non-life 0.7%), rising income levels, a high rate of economic growth and highly favourable demographic attributes.

REFORMS IN INSURANCE SECTOR:

For ensuring a future which is characterized by a well-rounded industry growth and which maximizes value creation for all the stakeholders, the sector must work towards capitalizing on every opportunity. Today, to the credit of combined efforts of both the regulator and industry players, benefits of insurance are widely acknowledged, public confidence in the industry has been very much restored and the industry has become more dynamic. Following the recent reform in the insurance sector, Indian insurance industry is moving ahead.

The main element in the reform process was the opening up of the insurance industry in 2000 with foreign direct investment permitted up to 26 per cent of equity. With this change global insurers have rushed into the country to capture the market. The Insurance Regulatory and Development Authority (IRDA) since its incorporation as a statutory body in April 2000 has regulated the opening of insurance sector which has seen 15 life and 23 non life private companies launch their operations in India In the post liberalization phase, insurance industry has witnessed beneficial effects of competition.

The market for pension product is developing and there is a unit linked insurance plan generated by private players. Opening of the insurance market to private and foreign players and a conversion of a monopolistic market to a liberalized one has transformed the insurance industry in India.The credit for enlarging the insurance sector goes to both the public and private sector.

While the private sector has come up with aggressive marketing strategy to establish their presence, the public sector has in turn redrawn its priorities and revamped their marketing strategies to reach out to greater mass of people It is in this backdrop of liberalisation of insurance sector the paper has analysed the new dimensions post liberalisation like raising of

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foreign direct limit, micro insurance in rural market, bancassurance, reinsurance and alternate risk transfer (ATR)

107 insurers amalgamated and grouped into four companies viz. the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd. GIC incorporated as a company.Postal Life Insurance should be allowed to operate in the rural market.

OBJECTIVES OF STUDY:

- To know the liberalization of insurance sectors
- To study growth of Insurance sector in India.

DIMENSIONS OF LIBERALIZATION:

- **FOREIGN DIRECT INVESTMENT (FDI)**

The insurance sector is investment starved. Several segments of the insurance sector need an expansion. The composite cap in the insurance sector is proposed to be increased up to 49% from the current level of 26% with full Indian management and control, through the FIPB route.Higher amount of FDI in insurance would increase penetration of insurance in India which is low compared to global average.Higher FDI in insurance sector can give much needed capital for growth of insurance sector which in turn will help in the long term economic development.

At present the foreign direct investment in insurance sector is permitted up to 26 per cent of equity.

Higher amount of Foreign Direct Investment (FDI) in insurance sector would increase penetration of insurance in India as existing companies will try to expand their reach and new companies making entry into the market will work for their space in the market. Higher amount of FDI is likely to enrich the business by bringing world class business practices and process. Simultaneously it would help expand distribution capabilities. It is proposed therefore to raise FDI limit from existing 26% to 49%. This will help the insurance industry.

- Higher FDI in insurance sector can give much needed capital for growth of insurance sector which in turn will help in the long term economic development.
- Ambitious infrastructure projects of Government can get stable long term source of funds.
- Higher amount of FDI in insurance would increase penetration of insurance in India which is low compared to global average.
- An increase in FDI in insurance will benefit the economy as people will invest in long term fund which will increased the growth of economy.

Insurance in India is mainly confined to urban sector Vast potentials are lying untapped in rural India. For accessing into these areas new approach is necessary in the matter of product design, pricing and product delivery mechanism. As far as rural health is concerned there are many new entrants waiting for making entry into the market, considering huge potential. Private players may tap these potentials. Thus raising of FDI limit in insurance sector will strengthen the market and thus lead to the economic growth of the country.

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It is anticipated that raising the FDI limits in the insurance sector to 49% will result in a FDI inflow of Rs.5,000-6,000 crores (cUS$1 billion) immediately after the cap is raised. However, until the Insurance Bill is introduced and passed by Parliament, it is difficult to anticipate whether the restrictions the Government is proposing to introduce will have the impact of actually reducing this anticipated inflow of foreign capital.

- **MICRO INSURANCE:**

The Government of India (GOI) and Non Government Organizations (NGOS) have started the micro insurance schemes in India. The Indian rural market with its enormous size, demand base, variety, and divergent customs offers great opportunities to marketers.With the rural population having increased to about 75% of the total population the demand for products and services has increased in rural areas but the supply and penetration is almost non-existent. The insurance sector has not made much headway in the rural sector.

The insurance market in India was liberalized in the year 2000 but has not expanded much in real terms beyond the urban domains. It is a common belief amongst the insurance companies that it is expensive to do business in rural areas.

There are many challenges in providing micro insurance to rural population since low income people are susceptible to risks. Commercial insurers have largely stayed away from the low income market mainly because of high cost and small premiums. In rural areas infrastructure is lacking and literacy levels are low.

The rural market is also characterized by inadequate and inappropriate services, inadequate information and communication gaps. These are the precise reasons for low demand for insurance in spite of strong need. Micro insurance may provide an innovative way to fight poverty and is different from insurance in general as it is a low value product. Micro insurance requires an intermediary between the customer and the insurance company.

- The Personal Accident Insurance Scheme (PAIS) which is being provided along with the Kisan Credit Card (KCC) and Rashtriya Krishi Bima Yojana (RKBY) for insuring crops are the only risk mitigation mechanism available to rural households.
- Many State Governments are offering Health Insurance facilities to the rural poor which have also generated considerable acceptance and awareness about insurance products in the rural areas.
- In October 2004 the RBI permitted Regional Rural Banks (RRBs) to take on insurance business as a "Corporate agent". RRBs have several branches is rural areas & they can play an important role.
- In IRDA regulations have certain most innovative features in legally recognizing NGOS, MFIs (Micro Finance Institutions) and SHGs as "micro insurance agents". This has the potential of significantly increasing rural insurance dispersion.
- A lot of commercial banks have united foreign insurance policies. Thus banking outlets and Co-operative societies could provide the needed outreach to provide micro insurance facilities without any further adding to business costs.

The GOI has also launched its new Social Security initiative - Aam Admi Bima Yojana (Common Person's Insurance Programme) for poor families that do not own agricultural land.

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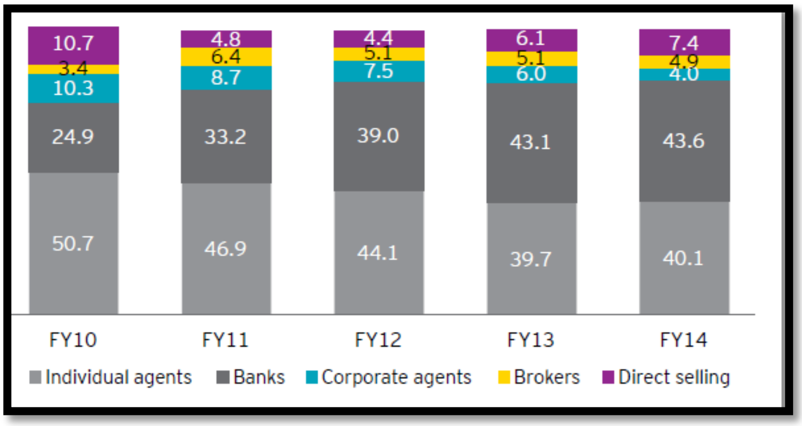
It extends death and disability coverage to an estimated 15 million rural and landless households. Under this programmes the State and the Union governments are expected to bear the premium of Rs. 200 for every policy holder who is insured to the extent of Rs. 50,000 in case of natural death and 75,000 in case of an accident. A number of micro insurance schemes are state led. Many others are partnership between private insurance companies and microfinance institutions. In such a partnership the microfinance institutions assume the role of an agent and distributes the product of the insurance company to its clients. This helps the insurance company to reach difficult markets cheaply.

➢ **BANCASSURANCE**

With other channels struggling to match the new economic reality post 2010 changes, bancassurancewas the only major channel which performed favourably. A captive customer base, banks' strong brandrecognition, ability to sell insurance as an add-on product with other banking products and a rapidlyexpanding bank branch network allowed private banks to scale up their insurance business.

GRAPH 1:CHANNEL-WISE DISTRIBUTION MIX - PRIVATE LIFE INSURERS



Source: Ernst & Young LLP Publication, IRDA(as % of individual New Business)

However, the benefits were restricted to a few players which successfully reduced their dependency onagency and other third party channels and improved their cost to premium ratios significantly while gainingscale and market share. As banks have increasingly influenced both volume and margin, insurers' share inprofits has been on a wane in most recent bancassurance deals.

GROWTH OF INSURANCE SECTOR:

While the insurance sector's journey over the last 15 years has been fast-paced, it hasn't been flawless. Post the opening of the sector for private participation and foreign funding in 2000, insurers went on an overdrive to ramp-up distribution and operations in a bid to win market share. Rapid economic growth, rising middle class population, and wealth and bullish equity markets enabled a 23% average rate of growth for the life insurance industry's first year premium between FY02 and FY11, and 16% for the non-life sector's gross direct premium between FY02 and FY153.

However, as the building scale took precedence over creating a quality business, the regulator stepped in to establish checks at every strata of the business. This led insurers to reflect upon

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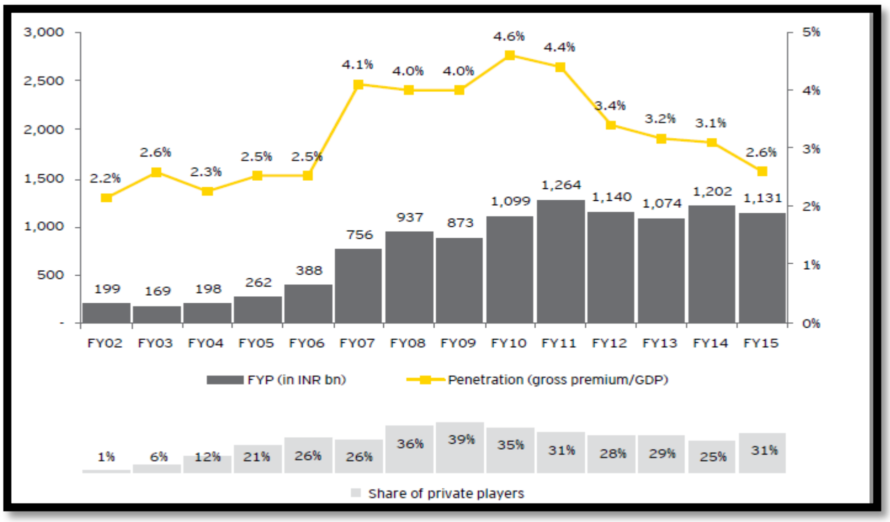
the viability of their operating models in the new product landscape. Insurers were compelled to undertake multiple corrective measures, as efficiency and profitability became paramount for long-term value creation. As a result of these measures, the customer took its rightful place as the central figure and the focus moved towards winning customer trust. pay-outs significantly), multiple restrictions on corporate agents and brokers, coupled with persistent high inflation and low-growth scenario, resulted in stagnation in the new business premiums since FY11. As a result, new business premium collections dropped from INR1,264 bn to INR 1,131 bn in FY15 (4 year CAGR: -3%).

However, in the near term, the life insurance sector is expected to grow by around 6% (till 2018)

GRAPH 1: EVOLUTION OF INDIA'S LIFE INSURANCE INDUSTRY



Source: Life Insurance Council, IRDAI, Swiss Re ‘World Insurance’ reports

India's economy is growing consistently. With the LPG move the Government is recognizing the need to improve infrastructure. Insurance industry has a major role to play in the economic development of the country as it plays a major role in providing long term funds for infrastructure development and at the same time strengthens the risk taking ability.

Insurance industry has a great social significance. It is associated with disasters calamity etc. Insurance companies generate funds out of insurance premium collected and help in uplifting the economy. It also has potential of employment opportunities.

CONCLUSION:

After a tough course correction in recent years, the Indian insurance landscape is looking at the future with renewed optimism.Favourable policy action, albeit delayed, has set in motion a new phase for the sector, which is expected to drive the next era of growth. However, to realize the full potential of these positive developments, the industry must focus on the aspects the will build value for all the vital stakeholders. Value for customers, the prime stakeholder, can be enhanced by providing more options at the time of purchase by developing segments such as pensions and long-term care, which are essential yet currently being offered in a very limited way. Besides developing options, it will also be critical to accurately assess the customers’needs and ensure transparency in communications to embed a feeling of trust among customers. Customer experience can be enhanced significantly by

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raising service delivery standards through a greater use of mobile technologies, analytics, and through implementation of global best practices adopted from the foreign partners, who can now be expected to play a greater role in the overall operations. All of these aspects, when coupled with providing sound layouts at the time of exit, will create enormous value for customers and earn their long-term allegiance.

For distributors, the real evidence of value creation will be when a distributor is able to stay engaged, can work like a partner and is confident of a long-term growth in its earnings. The insurance industry can create such value only by developing unified service capabilities between the insurers and the distributors through greater use of technology and sharing of resources. Additionally, creating a common skill development framework at an industry level will allow distributors to access the required manpower which is often a key challenge, particularly for the smaller distributors.

The insurance industry will create substantial shareholder value if it successfully caps costs across the value chain, primarily in the area of claims, by adopting robust claims administration systems, greater use of analytics for preventing frauds and adopting new methods of accurately pricing new business (like usage-basedinsurance). Shareholder value can also be amplified by writinghigher margin products by identifying niche segments and greater engagement with global reinsurers, who are now (post the passage of the Insurance Laws (Amendment) Act 2015) expected to set up local offices. However, the industry must strive to maintain high governance standards and eliminate risks, particularly the relatively new ones such as cyber risk.

Finally the stakeholder who puts it all together, the insurer, will create value for itself by focusing on a balanced rather than rapid growth. It must be careful in identifying the right ways to employ the additional capital inflows which it may receive over the next few years. Also, it should harp upon the adequate skilling of its employees and setting practices aimed to make it future ready.

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