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Imperative Enablers for Private Life Insurance Companies in India

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Abstract

India is no doubt a growing economy and many consider it an attractive country to invest in, particularly in its rapidly growing and changing insurance market. Indian insurance industry is one of the sunrise sectors with huge growth potential. Foreign direct investment plays an important role in the economic development of the country. Insurance companies in India's nascent insurance industry are eager to get more foreign capital to grow their businesses. If they could raise fresh capital from overseas partners and use that to expand, they could become profitable sooner. Foreign companies such as the U.K.'s Standard Life PLC and Prudential PLC, Germany's Allianz SE and MetLife Inc. of the U.S. are among the companies which operate in India. If they beefed up their Indian units, it could threaten the dominance of state-run companies in India's insurance sector.

This paper discusses the imperative enablers of private life insurance companies in Indian economy by analysing various parameters like the insurance penetration and insurance density increased foreign capital inflow, job employment opportunities and level playing field.

Keywords: Private Life Insurance Companies • FDI Inflows • Insurance Industry • Indian economy

Introduction

Insurance is a long-term contract and there are some deferent risks in this business as well as investment in this sector. An insurance company deploys funds in long-term investments in order to be able to pay claims that may arise in the future [1].

The Indian life insurance industry remained a monopoly till it was privatised in 1999. India experienced a liberalization of its insurance market in 2000 [2]. From 2000 to 2004, the Indian insurance industry grew at a rate of 15% per year, far surpassing the average growth rate for the world's insurance markets during the same time period. Insurance funds are thus suitable for developing national infrastructure and capital formation [3]. However, in a developing country like India, the government needs to retain some control over domestic savings instead of allowing foreign investors to enjoy control over Indian savings . The Parliamentary Standing Committee came to the same conclusion and it recommended that the cap on foreign direct investment (FDI) in Insurance sector be retained at 26 per cent [4].

Materials and methods

The current stage of competition in the Indian life insurance industry fits into the stage of monopolistic competition as the number of life insurers in India reached 24. (Refer Table 1)

Table 1 : Number of Insurance Companies in India

Type of Business	No. of Public Sector Companies	No. of Private Sector Companies	Total Companies
Life insurance	01	23	24
General insurance	06	22	28
Re insurance	01	0	01
Total	08	45	53

Table 1 : Number of Insurance Companies in India.

Purpose of the study

This research study is aimed at understanding the factors that influence the private life insurance companies on the Indian Economy

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It also brings out the trend of FDI inflow into India by the different life insurance companies

Methodology of the study

The data collected is secondary in nature. The research is based on descriptive study. The data is collected from Annual Report of IRDA from 2001 to 2012 and the RBI Handbook of Statistics.

Enablers for private life insurance companies in the indian economy

Insurance Penetration and Insurance Density in India

The potential and performance of the insurance sector is universally assessed with reference to two parameters, viz. insurance penetration and insurance density. The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population [5].

During the first decade of insurance sector liberalization (i.e. 2001-2009), this sector has reported consistent increase in insurance penetration from 2.71% in 2001 to 5.20%in 2009. The insurance density of life insurance business had gone up from USD 9.1 in 2001 to reach the peak at USD at 55.7 in 2010. The favourable conditions for insurance sector in India were on account of robust external funding conditions.

However, since then, the level of penetration has been declining and reached 3.96% in 2012.Also, the level of life insurance density was only USD 42.7 during 2012-13. This is mainly because the growth in insurance premium was lower than the growth in national GDP. (Refer table 2)

Table:2

Year	Life		Non Life		Industry	
	Density (USD)	Penetration %	Density (USD)	Penetration %	Density (USD)	Penetration %
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3.0	0.67	14.7	3.26
2003	12.9	2.26	3.5	0.62	16.4	2.88
2004	15.7	2.53	4.0	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.10	5.2	0.60	38.4	4.80
2007	40.4	4.00	6.2	0.60	46.6	4.70
2008	41.3	4.00	6.2	0.60	47.4	4.60
2009	47.7	4.60	6.7	0.60	54.3	5.20
2010	55.7	4.40	8.7	0.71	64.4	5.10
2011	49.0	3.40	10.0	0.70	59.0	4.10
2012	42.7	3.17	10.5	0.78	53.2	3.96

Table 2. Insurance Penetration and Density in

India. Increased Capital Inflow

Insurance Regulatory and Development Authority Act, 1999 permitted foreign shareholding in insurance companies to the extent of 26 per cent with an aim to provide better insurance coverage and to augment the flow of long-term resources for financing infrastructure.

Recent scenario indicates that out of 23 private insurance companies, 22 companies (other than Sahara Insurance) overall FDI inflow is 25.47% by 2012.

However, currently most of the private sector insurance companies have been making considerable losses. While private sector insurers posted 6.87 % decline in 2013 (4.52% in 2012) in the premium income, LIC recorded 2.92 % growth in 2013 (0.29% in 2012). The increased FDI limit will bring some much needed relief to these private firms as the inflow of more than 10,000 crore is expected in the near term. This could go up to 40,000 crore in the medium to long term, depending on how things pan out.

Results and discussion

Job creation

Insurance helps create both direct and indirect employment in the economy. Alongside regular jobs in insurance, there is always demand for a range of associated professionals such as brokers, insurance advisors, agents, underwriters, claims managers and actuaries. The increasing insurance business has increased the demand for highly skilled professionals as well as semiskilled and unskilled people. To ensure continued growth, the need of the hour is trained manpower with specialized knowledge about insurance. Insurance companies need to invest in the professional training of their employees, especially for subjects such as underwriting, claims and risk management.

With more money coming into the insurance companies in India, India will be able to create more jobs to meet their targets of venturing into under insured markets through improved infrastructure, better operations and more manpower.

Level playing field

With the increase in foreign direct investment to 49 per cent, the insurance companies will get the level playing field. So far the state owned Life Corporation of India controls around 70 per cent of the life insurance market.

Conclusion

Insurance Sector not only plays an unparalleled role by spreading the message of life insurance throughout the country, but also a significant role in the economic development of the nation. Insurance helps the society by creating both direct and indirect employment opportunities for the economic development of the nation. But a country like India with its vast resources is still lacking in the development of life Insurance development, private life insurance companies' especially foreign players can help the economic development of the nation with increased penetration and larger scope.

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