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Life Insurance Density and Life Insurance Penetration in India after Life Insurance Sector Reform

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Structured Abstract:

Purpose: This paper is an attempt to show the movement of the volume of life insurance business in India pursuant to the reform of the sector in the year 2000 with the objective of the inclusion of private sector in the life insurance business. Also to make an international comparison of the scenario of life insurance penetration and density in the year 2017-2018.

Design / Methodology / Approach: The study is mainly an analytical work based on collected Secondary data. Published Secondary data have been considered. The data have been collected from the Annual Reports of IRDAI for different years given in their website.

Findings: The Standard Deviation value of Life Insurance Density is quite high and it indicates that the deviations from the mean value of Life Insurance Density in different years were very wide where as the Standard Deviation value of Life Insurance penetration is quite low and it indicates that the deviations from the mean value of Life Insurance penetration in different years were very narrow.

Research Limitations / Implications: The study is based on the data for the period from 2000-01 to 2017-18 only and used limited factors like insurance penetration, insurance density and total insurance premium collected. Some other parameters also could have improved the study.

Practical Implications: Government introduces regulations from time to time to control the life insurance business to boost up the economy of our country. The outcome of the study may help in framing policy decisions in the field of insurance.

Originality / Value: The study is based on the published Annual Reports of IRDAI. After the reform in insurance sectors both life insurance density and life insurance penetration show positive growth.

Keywords: Growth, Insurance Density, Insurance Penetration, IRDA, Life Insurance.

Paper Type: Research paper.

Introduction

India, the second largest populous country in the world with untapped market area of population, insurance happens to be a great opportunity here. Presently insurance sector is growing at the rate of 15-20 per cent annually. Together with banking services insurance sector is contributing about 7 per cent to the country's GDP. Regardless of the growth mentioned above the statistics of the penetration and density of life insurance in the country is very poor. Around 80 per cent (IRDAI Annual Report, 2000) of the Indian populations are without life insurance cover. It is an indicator of the massive growth potential for the life insurance sector in India. Considering this growth possibility regulations were introduced in the insurance sector and in continuation "Malhotra Committee" was formed by the Government in 1993 to study the various aspects of the industry. The inherent objective of the reform was to develop more efficient and competitive financial system suitable for the benefit of the economy. Since then insurance industry has been passing through drastic changes. On the recommendations of the Malhotra Committee, headed by former Governor of RBI Mr. R. N. Malhotra Insurance Regulatory Development Authority (IRDA) of India was constituted in 1999 as an autonomous body to regulate and promote the insurance industry in India. The Committee after studying inputs from various stakeholders strongly suggested that the private sector be allowed to participate in the insurance industry and foreign companies should be permitted to enter the industry through Indian companies preferably on joint venture with Indian partners. Since its incorporation the IRDA has been framing various regulations and registering the private sector insurance companies. As a statutory body IRDA has put a framework of globally compatible regulations. After a long wait Insurance Regulatory and Development Authority had issued the first set of guidelines governing the operations of insurance industry in a liberalized scenario. The guidelines released relate to registration of insurance companies with IRDA, reinsurance norms for companies dealing in general insurance, rural and social sector exposure and actuaries. The minimum equity share capital for life and general insurance has been kept at Rs. 100 crores and that for re-insurance has been kept at Rs. 200 crores. The insurance and re-insurance hopefuls will have to provide evidence of having the required paid-up capital.

Review of Literature

Aditya Nath Jha, (2014) studied the practices of various channel distribution system in life insurance industry through which products are delivered to the customers. Before privatization only individual insurance agents were allowed to sell life insurance products. But after the IRDA Act has been passed distribution channels have been expanded.

Anand Thakur, (2013) examined the marketing strategies followed in health insurance sector and suggested effective marketing ideas. Health insurance has huge possibility in Indian insurance market. Due to limitation of products and shortage of awareness among people penetration is poor.

Arnika Srivastava, (2012) studied the review of life insurance industry in the country has taken up. Life insurance industry is the backbone of our economy. Life insurance Corporation enjoyed the monopoly power in life insurance sector. But after the IRDA Act, the sector is opened up for private Sectors also.

Kumari Hymavathi T, (2013) in her study conveyed that life insurance business achieved a remarkable growth in premium collection after the sector is opened for private sector. She also suggested that innovative products and better facilities to the customer will help to obtain proper growth of the insurance business.

G. Karunanithi, (2012) made assessment of performance and marketing strategies of LIC of India. Before Privatization LIC has monopoly power over the life insurance sector. But after privatization now there have 24 insurance companies in life insurance market. It has eroded LIC share to 71% of the market. LIC was not able to tap all the market and more than 80% of the population of India is out of insurance cover.

Manjit Singh and Rohit Kumar (2008), in the paper, "Indian Insurance Industry Outlook in the Post Reform period", showed that insurance penetration and density has witnessed an increasing trend in the post- reform period, but the scope of expansion is immense comparing to developed nations. The study also indicates huge unexplored and untapped market in India and huge opportunities are there for insurance companies to capture the business from competitive market; the survival of companies will depend on their policies and practices to increase their penetration levels and tap the new business positions particularly in rural India.

Though the review may not be the exhaustive literature review, but there is need of study of different relevant aspects influencing the life insurance sector with current information. The writing is a mere attempt in this regard.

Objectives of the Study

In this paper the study has been made with the following major objectives:

1. To make an attempt to compute and analyze the growth of life insurance business in our country during the study period,
2. To study the trend of life insurance penetration and density in India during the study period.
3. To make an international comparison of the scenario of life insurance penetration and density in the year 2017-18.
4. To make some concluding remarks on the basis of the findings of this study.

Study Period

The study period taken in this research work is a period of 18 years i.e., 2000-01 to 2017-18.

Sources of Data

All the data used in the present study are secondary data. The data have been collected from the Annual Reports of IRDAI for different years given in their website.

Research Methodology

The present research study is mainly an analytical work based on the collected data. The measure of Insurance Penetration and Insurance Density reflects the level of development of insurance sector in a country. Insurance Penetration is measured as a percentage of total insurance premiums collected to GDP of the country. Insurance Density is calculated as a ratio of total insurance premium collected to total population of the country. Hence, Insurance Density means per capita insurance premium collected. In the present study, simple statistical and arithmetical tools like Minimum Value, Maximum Value, Mean and Standard Deviation have been used. The necessary computations in respect of Mean and Standard Deviation have been done with the help of statistical formula in Excel. The Growth Rates of different parameters have been shown in terms of percentage and these have been computed manually. With the help of different statistical tools the growth rates of Insurance Density and Insurance Penetration during the study period have been analyzed. At the end, some concluding remarks have been made.

Growth of Life Insurance Business in India

From Table I it is interestingly observed the growth of life insurance business, private insurance business and ultimately total insurance business in total. Here it is observed that in 2013-14 growth of life insurance business by private company was negative, that is -1.33%, where as growth of life insurance business of India was positive, that is 13.48%. But thereafter in 2014-2015 growth of private insurance business increased to 14.32 % but growth of life insurance business decreased to 1.15% only. Ultimately in 2017-18 growth of private insurance business was 19.15% and growth of life insurance business was 5.90% which is much lower than growth of private insurance business was.

Trend of Life Insurance Penetration and Density in India

The following Table II shows the data of Insurance Density and Insurance Penetration in respect of life insurance for the period from 2000-2001 to 2017-2018 along with computed values of Mean, Minimum Value, Maximum Value, Standard Deviation and Overall growth percentage. In that table we observe that in 2001 insurance density was only 9.1 in US $, but in 2018 it is increased to 59 in US $**.** In case of insurance penetration it was 2.15% in 2001, and then it was 4.60% in 2009 which was highest over the study period 2000-2001 to 2017-2018. Year 2009 onwards insurance penetration declines continuously up to 2017, then again it rises to 3.49% in 2018. The Standard Deviation value of Life Insurance Density works out at 16.244 US $ which is quite high and it indicates that the deviations from the mean value of Life Insurance Density in different years were very wide where as the Standard Deviation value of Life Insurance penetration works out at 0.763% which is quite low and it indicates that the deviations from the mean value of Life Insurance penetration in different years were very narrow.

International Comparison of the Scenario of Life Insurance Penetration and Density

However, the total premium income generated by the insurance industry in India is small as compared to those in countries such as United States, Japan and United Kingdom. From Table III we see that the respective percentage of the contribution of life insurance to the gross national product (GNP) were 3.04%, 7.14%, 8.86%, and 10.61% for India, US, Japan and UK in 2017-2018. This indicates that the Indian insurance industry in general, and its life business in specific, both have a bright prospect and a high potential role to play in contributing to the national savings.

Conclusion

The study reveals that during the post reform period in insurance sector due to emergence of a large number of private insurers, the insurance penetration and insurance density have increased considerably in respect of life-insurance. It also observed that during the post reform period the growth of LICI business has grown significantly than private players at early period of reform but from 2014-15 the business growth of LICI declines significantly compare to private life insurance companies in India.

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Table I: Growth of life insurance premium in India *(Rs. In Crore)*

INSURER	2013-14	2014-15	2015-16	2016-17	2017-18
PRIVATE TOTAL	77359.36 (-1.33)	88434.36 (14.32)	100499.03 (13.64)	117989.25 (17.40)	140586.23 (19.15)
LICI	236942.30 (13.48)	239667.65 (1.15)	266444.21 (11.17)	300487.36 (12.78)	318223.21 (5.90)
INDUSTRY TOTAL	314301.66 (9.44)	328102.01 (4.39)	366943.23 (11.84)	418476.61 (14.04)	458809.44 (9.64)

Source: Annual Report of IRDA 2017-2018 (Figures in the brackets represent the growth percentage over the previous year in percent).

Table II: Trend of Life Insurance Penetration and Density in India

Year ended 31st March	**In respect of Life Insurance**	
	Insurance Density (US $)	**Insurance Penetration (Percentage)**
2001	9.1	2.15
2002	11.7	2.59
2003	12.9	2.26
2004	15.7	2.53
2005	18.3	2.53
2006	33.2	4.10
2007	40.4	4.00
2008	41.2	4.00
2009	47.7	4.60
2010	55.7	4.40
2011	49.0	3.40
2012	42.7	3.17
2013	41.0	3.10
2014	44.0	2.60
2015	43.0	2.70
2016	46.5	2.72
2017	55.0	2.76
2018	59.0	3.49
Minimum	**9.10**	**2.15**
Maximum	**59.00**	**4.60**
Mean	**37.005**	**3.172**
S.D.	**16.244**	**0.763**
Overall Growth (per cent)	**548.351**	**62.325**

Source: IRDAI Annual Report for the year 2017-2018.

Table III: **Demand for life insurance in different countries of the world, for the Year 2017-18**

Countries	Insurance Penetration (premiums as a % of GDP)	Insurance Density (per capita premiums in US dollar)
United Kingdom	10.61	3028.5
Japan	8.86	3165.1
United States	7.14	1611.4
South Africa	12.89	392.9
Australia	5.58	1193.5
South Korea	11.16	935.6
India	3.04	7.6
China	4.22	9.5
Malaysia	3.13	26.4
Indonesia	1.89	4.0
Brazil	3.9	12.9

Source: International Journal of Insurance, 2018.