
DYNAMICS OF INSURANCE SECTOR IN INDIA - A ROAD MAP TOWARDS GROWTH AND DEVELOPMENT

Article Particulars

Received: 4.7.2017

Accepted: 10.7.2017

Published: 28.7.2017

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Abstract

The service sector consists of the soft parts of the economy such as insurance, government, tourism, banking, retail, education, and social services. One of the reasons for the sudden growth in the services sector in India in the nineties was the liberalization in the regulatory framework that gave rise to innovation and higher exports from the services sector. In the current economic scenario it looks that the boom in the services sector is here to stay as India is fast emerging as global services hub. The insurance industry has grown by 83 percent since the opening up of the sector. Insurance sector constitutes one of the major segments of the financial market. It plays a predominant role in the process of capital formation of the country as mobilize of savings and also as financial intermediary. The Insurance industry commands large funds through sale of Insurance products to a large number of individuals and organizations located in different parts of the country. Insurance and growth mutually influences each other. As the economy grows, the living standards of people increase. As a consequence the demand for life insurance increases. As the assets of people and of business enterprises increase in the growth process the demand for general insurance also increase. A well-developed insurance sector promotes economic growth by encouraging risk taking. Risk is inherent in all economic activities. Also insurance and more particularly life insurance is a mobilize of long term savings and life insurance companies are thus able to support infrastructure projects which require long term funds. There is thus a mutually beneficial interaction between insurance and economic growth. This paper attempts to study the density and penetration of insurance in India.

Keywords: Insurance industry, economic growth, density and penetration of insurance, insurance products

Introduction

The Indian insurance industry is slowly improving in its own way after the liberalization and economic reforms. Despite the muscular upgrading in penetration and density in the last 10 years, India largely remains an under-penetrated market. The market today is primarily dependent on various factors such as push, tax incentives and mandatory buying for sales. There is very little customer pull, which will come from with increasing savings and disposable income. Till then the stakeholders will escalating transparency of cost and pricing, effective distribution and improving customer servicing to drive sales. In the long run the insurance industry is still poised for a strong growth as the domestic economy is expected to grow steadily, leading to rise in per capita and disposable income, while savings are expected to be stable. The insurance industry stands at the doorstep of stirring toward a stable growth. There is need to maintaining favorable surroundings for stable growth, increasing the penetration of insurance to rural and underpenetrated areas and increasing the contribution to the economy.

Objectives

This study is based on the following objectives.

- To analyze the density and penetration of life insurance in Indian insurance sector.
- To investigate the density and penetration of non-life insurance in Indian insurance sector.
- To evaluate the total density and penetration of Indian insurance sector.

Methodology

The study is based on published sources of data collected from Annual Report 2014-15, Insurance Regulatory and Development Authority of India. The study is undertaken for a period of 14 years from 2001 to 2014. To analyze the data the Annual Growth Rate (AGR), Average Annual Growth Rate (AAGR) and Compounded Annual Growth Rate (CAGR) are used. The data can be explained with the suitable tables and graphs.

Insurance Penetration and Density in Indian Insurance Sector

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 (per capita premium). Table-1 gives information about the insurance penetration and density in India for the period 2001-2014. Insurance density is an important measurement rod to measure the total premium of insurance paid by the people after purchasing the policies. Insurance is an integral part of the economy it gives protection to people against various risks. In this regard the government of India has been measuring the density and penetration of life and non-life insurance in the report published by the IRDAI every year.

Table 1: Density and Penetration of Life Insurance, Non-Life Insurance and Total Insurance Industry in India

Year	Life Insurance		Non-life Insurance		Industry	
	Density (USD)	Penetration (Percentage)	Density (USD)	Penetration (Percentage)	Density (USD)	Penetration (Percentage)
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3	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	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.1	5.2	0.6	38.4	4.8
2007	40.4	4	6.2	0.6	46.6	4.7
2008	41.2	4	6.2	0.6	47.4	4.6
2009	47.7	4.6	6.7	0.6	54.3	5.2
2010	55.7	4.4	8.7	0.71	64.4	5.1
2011	49	3.4	10	0.7	59	4.1
2012	42.7	3.17	10.5	0.78	53.2	3.96
2013	41	3.1	11	0.8	52	3.9
2014	44	2.6	11	0.7	55	3.3

Note: 1. Insurance density is measured as ratio of premium (in USD) to total population.
 2. Insurance penetration is measured as ratio of premium (in USD) to GDP (in USD).

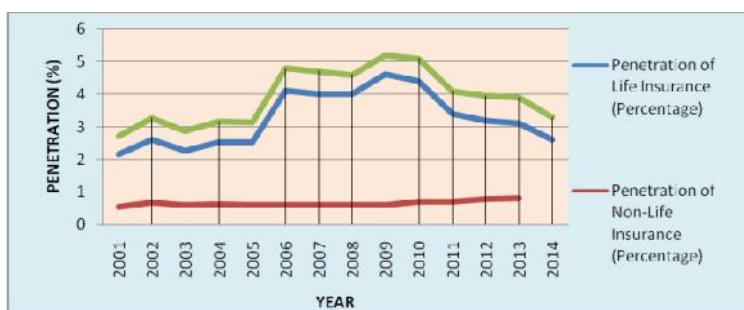
Source: Annual Report 2014-15, Insurance Regulatory and Development Authority of India.

Graph 1: Density of Life Insurance, Non-Life Insurance and Industry in Indian Insurance Sector (USD)



Source: Annual Report 2014-15, Insurance Regulatory and Development Authority of India and compiled by author

The above graph-1 depicts the density of life insurance, non-life insurance and density of total insurance (both life and non-life insurance) in India. It is very clear from the graph-1 that, there is a highest density of life insurance and non-life insurance in industry during 2010, that is USD 64.4 and



Graph 2: Penetration of Life Insurance, Non-Life Insurance and Total Industry in Indian Insurance Sector

Source: Annual Report 2014-15, Insurance Regulatory and Development Authority of India and compiled by author

lowest during 2001, that is USD 11.5. It shows that there is a gradual increment in the density of insurance from 2001 to 2011, but till 2013 there is a slight decrement in the density of population and again in 2004 it was increased to USD 55. Graph-2 shows that penetration of insurance in Indian insurance sector. It consists of both life and non-life insurance premiums. Insurance penetration is high in 2009 that is 5.2 percent and low in 2001 that is 2.7 percent. It is clear that, penetration of life insurance is high during 2009 that is 4.6 percent and is lowest in 2001 that is 2.15 percent. There is volatility in the penetration of insurance in the Indian insurance sector. In the case of non-life insurance the penetration of insurance is high in 2013 that is 0.8 percent and low in 2001 that is 0.56 percent.

Density and Penetration of Life Insurance in Indian Insurance Sector

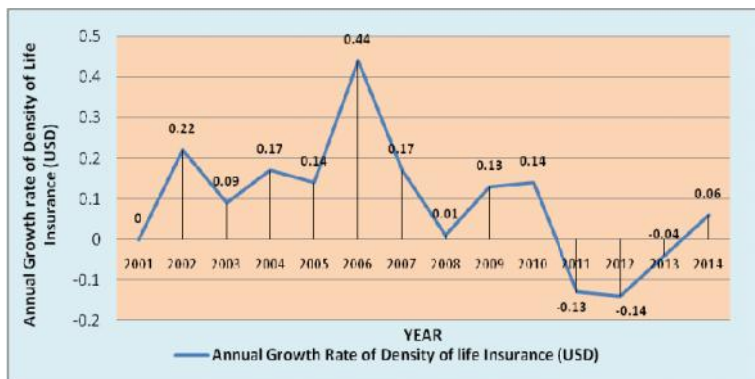
The life insurance has been occupied an important role in the Indian insurance sector. The table-2 shows the annual growth rates of density of life insurance and non-life insurance in Indian insurance sector. There is 33.04 percent of average annual growth rate of density of life insurance attained during the period 2001 to 2014. In the case of penetration of life insurance 3.2 percent of annual average growth rate have been achieved. During 2001-2014 there is 0.11 percent compounded annual growth rate has been achieved in life insurance. That means 0.11 percent increment growth rate has been achieved. Further 0.01 percent of growth rate has been achieved in the penetration of life insurance (compounded annual growth rate of penetration of life insurance 0.01).

Table 2: Annual Growth Rates of Density and Penetration of Life Insurance in Indian Insurance Sector (in %)

Year	Life Insurance			
	Density (USD)	Penetration (Percentage)	Annual Growth Rate of Density of life Insurance (USD)	Annual Growth Rate Penetration of Life Insurance (%)
2001	9.1	2.15	---	---
2002	11.7	2.59	0.2222222	0.1698842
2003	12.9	2.26	0.0930233	-0.1460177
2004	15.7	2.53	0.1783439	0.1067194
2005	18.3	2.53	0.1420765	0
2006	33.2	4.1	0.4487952	0.3829268
2007	40.4	4	0.1782178	-0.025
2008	41.2	4	0.0194175	0
2009	47.7	4.6	0.1362683	0.1304348
2010	55.7	4.4	0.1436266	-0.0454545
2011	49	3.4	-0.1367347	-0.2941176
2012	42.7	3.17	-0.147541	-0.0725552
2013	41	3.1	-0.0414634	-0.0225806
2014	44	2.6	0.0681818	-0.1923077
Average Annual Growth rate of Density of Life Insurance (USD) = 33.04				
Average Annual Growth rate of Penetration of Life Insurance (%) = 3.245				
Compound Annual Growth Rate of Density of Life Insurance (USD) = 0.119145				
Compound Annual Growth Rate of Penetration of Life Insurance (%) = 0.013667				

Source: Annual Report 2014-15, Insurance Regulatory and Development Authority of India and compiled by author

Graph 3: Annual Growth Rate of Density of Life Insurance (USD)



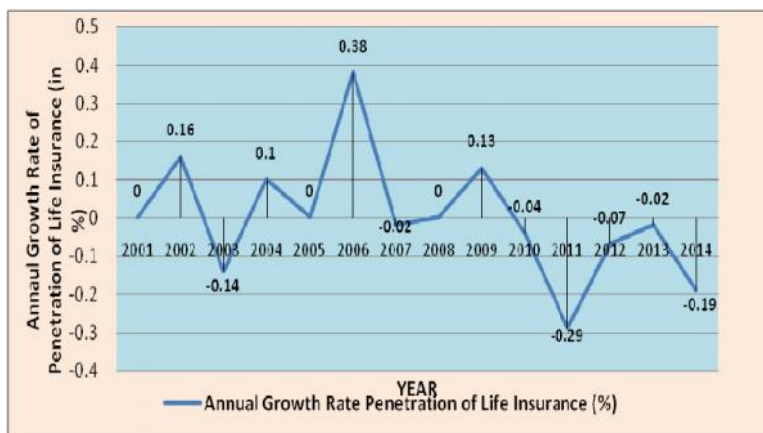
Source: Annual Report 2014-15, Insurance Regulatory and Development Authority of India and compiled by author

The graph-3 shows that during 2011, 2012 and 2013 there is a negative annual growth rates have been achieved and in the

remaining years there is positive growth rates have been achieved in the case of density of life insurance. During 2006 there is highest annual growth rate has been achieved that is 0.44 percent and in 2012 negative growth rate of -0.14 percent has been achieved and recovered over the period.

Graph 4: Annual Growth Rate of Penetration of Life Insurance (%)

Source: Annual Report 2014-15, Insurance Regulatory and Development Authority of India and compiled by author



of India and compiled by author.

The graph-4 shows the annual growth rate of penetration of life insurance in the Indian insurance sector. The graph-4 clearly depicts that the highest annual growth rates of penetration of life insurance has been achieved during

2006, that is 0.38 percent and lowest negative in 2011 that is -0.29 percent. During 2003, 2007, 2010, 2011, 2012, 2013 and 2014 there is negative growth rates has been attained.

Density and Penetration of Non-Life Insurance in Indian Insurance Sector

The table-3 gives information on the annual growth rate of density and penetration of non-life insurance in India. There is 6.62 percent of annual growth rate of density of non-life insurance during this period. The penetration of non-life insurance has been achieved 0.65 percent average annual growth rate. During this period there is 0.11 percent of increment in the density of non-life insurance as depicted by the compounded annual growth tare of density of insurance. Eventually there is 0.01

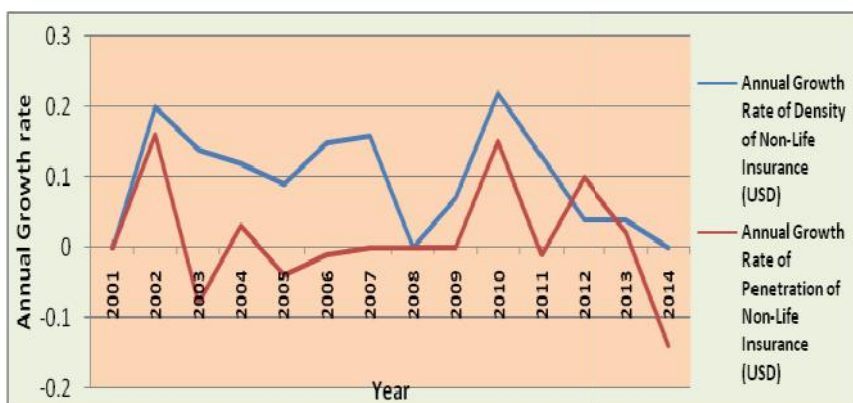
percent of increment in the penetration of non-life insurance as the compounded annual growth rate shows.

Table 3: Annual Growth Rates of Density and Penetration of Non-Life Insurance in Indian Insurance Sector

Year	Non-Life Insurance			
	Density (USD)	Penetration (Percentage)	Annual Growth Rate of Density of Non-Life Insurance (USD)	Annual Growth Rate of Penetration of Non-Life Insurance (USD)
2001	2.4	0.56	----	----
2002	3	0.67	0.2	0.164179104
2003	3.5	0.62	0.142857143	-0.080645161
2004	4	0.64	0.125	0.03125
2005	4.4	0.61	0.090909091	-0.049180328
2006	5.2	0.6	0.153846154	-0.016666667
2007	6.2	0.6	0.161290323	0
2008	6.2	0.6	0	0
2009	6.7	0.6	0.074626866	0
2010	8.7	0.71	0.229885057	0.154929577
2011	10	0.7	0.13	-0.014285714
2012	10.5	0.78	0.047619048	0.102564103
2013	11	0.8	0.045454545	0.025
2014	11	0.7	0	-0.142857143
Average Annual Growth rate of Density of Non-Life Insurance (USD) = 6.62				
Average Annual Growth rate of Penetration of Non-Life Insurance (%) = 0.65				
Compound Annual Growth Rate of Density of Non-Life Insurance (USD) = 0.11				
Compound Annual Growth Rate of Penetration of Non-Life Insurance (%) = 0.01				

Source: Annual Report 2014-15, Insurance Regulatory and Development Authority of India and compiled by author

Graph 5: Annual Growth Rates of Density and Penetration of Non-Life Insurance in Indian Insurance Sector (in %)



Source: Annual Report 2014-15, Insurance Regulatory and Development Authority of India and compiled by author Graph-5 shows the annual growth rate of density and penetration of non-life insurance in India. During 2008 and

Graph 6: Annual Growth Rates of Density and Penetration of Total Insurance Industry (Both Life and Non-Life Insurance) in Indian Insurance Sector

Source: Annual Report 2014-15, Insurance Regulatory and Development Authority of India and compiled by author

2014 there is zero annual growth rates attained in the case of density of non-life insurance in India, but in the remaining years there is positive annual growth rate have been achieved and it is highest in 2002 that is 0.22 percent. In the case of penetration of non-life insurance the annual growth rate was zero during 2007, 2008 and 2009. During 2003, 2005, 2006, 2011 and 2014 there is negative annual growth rate have been achieved.

Table 4: Annual Growth Rates of Density and Penetration of Total Insurance Industry (Both Life and Non-Life Insurance) in Indian Insurance Sector (in %)

Year	Total Industry (Both Life and Non-Life Insurance)			
	Density (USD)	Penetration (Percentage)	Annual Growth Rate of Density of Total Insurance Industry (USD)	Annual Growth Rate of Penetration of Total Insurance Industry (%)
2001	11.5	2.71	----	----
2002	14.7	3.26	0.217687075	0.168711656
2003	16.4	2.88	0.103658537	-0.131944444
2004	19.7	3.17	0.16751269	0.09148265
2005	22.7	3.14	0.13215859	-0.00955414
2006	38.4	4.8	0.408854167	0.345833333
2007	46.6	4.7	0.175965665	-0.021276596
2008	47.4	4.6	0.016877637	-0.02173913
2009	54.3	5.2	0.127071823	0.115384615
2010	64.4	5.1	0.156832298	-0.019607843
2011	59	4.1	-0.091525424	-0.243902439
2012	53.2	3.96	-0.109022556	-0.035353535
2013	52	3.9	-0.023076923	-0.015384615
2014	55	3.3	0.054545455	-0.181818182
Average Annual Growth rate of Density of Total Insurance Industry (USD) = 39.66				
Average Annual Growth rate of Penetration of Total Insurance Industry (%) = 3.91				
Compound Annual Growth Rate of Density of Total Insurance Industry (USD) = 0.11				
Compound Annual Growth Rate of Penetration of Total Insurance Industry (%) = 0.01				

Source: Annual Report 2014-15, Insurance Regulatory and Development Authority of India and compiled by author

The table-4 shows the density and penetration in the total insurance industry in India which includes both life and non-life insurance. The average annual growth rate of density of total insurance industry was 39.66 percent during this period. The average annual growth rate of penetration of total insurance in industry was 3.91 percent. It shows that if density of total insurance industry grown up by 39.66 percent the penetration of total insurance industry grown up by 3.91 percent. During this period the compounded annual growth rate of density of total insurance industry was 0.11 percent it means the density of total insurance in industry grown up by 0.11 percent. Further the compounded annual growth rate of penetration of total insurance industry was 0.01 percent it shows that there is 0.01 percent of growth rate has been achieved. It is very clear from the table-4 that the growth rate of density of insurance has been increasing more than the penetration of insurance in Indian insurance sector. It shows

that ratio of premium to total population has been gradually increasing more than the ratio of premium to GDP in Indian insurance sector.

Graph-6 explains the annual growth rate of density and penetration of total insurance in India insurance sector. In industry density of total insurance has been achieved negative growth rates during 2011, 2012 and 2013, but in the remaining years there is positive growth rates have been achieved. It was highest during 2006 that is 0.04 percent. In the case of penetration of total insurance the annual growth rate is very high during 2006 that is 0.34 percent but it is important to note that during 2003, 2005, 2007, and 2008 and from 2010 to 2014 there is negative growth rate attained.

Conclusion

Insurance sector in India has to grow faster manner and it has not been covered large portion of population. In order to increase the penetration and density of insurance the per capita savings have to be increased. Less per capita savings are not promoting insurance sector in India. The larger savings with increased per capita income large portion of people can come under insurance sector. For this the modern proactive governments should implement the income generating programmes to boost the insurance sector in India.

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