



## INSURANCE: AN UNDERLYING SECTOR

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### ABSTRACT

*By this study we are trying to address how the insurance sector can help boost India's economy by 2-fold. From a 2.7 trillion dollars to a 5 trillion-dollar economy in a few years, with the support of the government, private and public organizations and companies This sector is often overlooked when the topic of contribution to GDP is brought up. Through this paper we want to inform and spread out about the significance of insurance in developing various aspects of the country which can help flourish the GDP and the economy as a whole. To analyses the insurance growth trend and potential growth. To inform about the multiplier effect of the insurance sector on India's GDP. Primary data has been collected by conducting surveys, interviewing people relevant to the insurance sector. Data has been collected from journals, articles, newsletter of Insurance Institute of India, etc. The study period is 2022. From the above analysis we can observe that trend percentages are increasing, so we can conclude it is improving year to year and but still India has less density percentage in the world wide. There is need to penetrate into rural areas in a big way since huge market potential lies in rural India*

**KEYWORDS:** GDP, Insurance, India's economy,

### INTRODUCTION

Insurance is a way to manage your risk. When you purchase insurance, you purchase protection or compensation against unexpected losses mostly financial. The payment for the loss is paid by the person or the company from whom you purchase the insurance. The purchase of insurance is called an insurance policy. An insurance policy is a written contract between the policyholder (the person or company that gets the policy) and the insurer (the insurance company). The insurer agrees to compensate the insured in the event of a covered loss in an exchange for a periodical payment of a sum of money called premium. Some common types of insurance are health, disability, auto, life, etc. The insurer agrees to compensate the insured in the event of a covered loss in an exchange for a periodical payment of a sum of money called premium.

Insurance affects the economic development of a country positively. As an economy develops over the years, the insurance business starts making inroads into the various sectors of economic activity in the country. Insurance contributes about 4.2% in India's GDP and has shown a great trend and potential of growth which can multiply. Thus, we can establish a proper increase in GDP of India with the support and by supporting the insurance sector.

### STATEMENT OF THE PROBLEM

By this study we are trying to address how the insurance sector can help boost India's economy by 2-fold. From a 2.7 trillion dollar to a 5 trillion-dollar economy in a few years, with

the support of the government, private and public organisations and companies This sector is often overlooked when the topic of contribution to GDP is brought up.

### SIGNIFICANCE OF THE STUDY

Through this paper we want to inform and spread out about the significance of insurance in developing various aspects of the country which can help flourish the GDP and the economy as a whole.

### OBJECTIVES OF THE STUDY

- To analyse the insurance growth trend and potential growth
- To inform about the multiplier effect of the insurance sector on India's GDP.

### RESEARCH METHODOLOGY

The present study is based on both primary and secondary data.

Primary data has been collected by conducting surveys, interviewing people relevant to the insurance sector. Data has been collected from journals, articles, newsletter of Insurance Institute of India, etc. The study period is 2022.

Simple statistical and arithmetical tools like Mean, Median, Standard Deviation, Variance and ANOVA have been used in data analysis. The potential and performance of the insurance sector is assessed in metrics like insurance penetration, insurance density and its growth rate, etc.

Insurance penetration indicates the level of the insurance



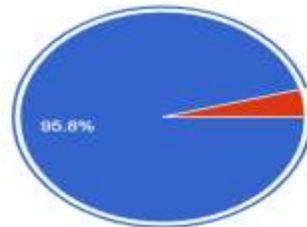
sector in the country. It is the ratio of premium underwritten in a given year to the Gross Domestic Product (GDP).

Insurance Density is the ratio of premium underwritten in a given year to the total population.

## SURVEY RESULTS

Do you have insurance policy?

95 responses

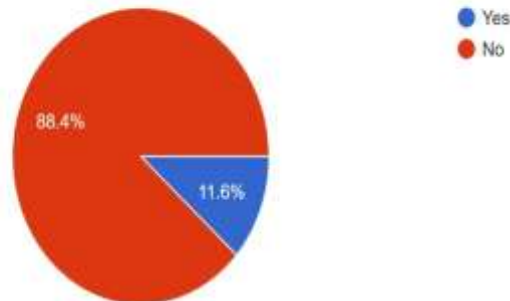


- YES
- NO

The answer by majority of the respondents was they don't have an insurance policy of anykind.

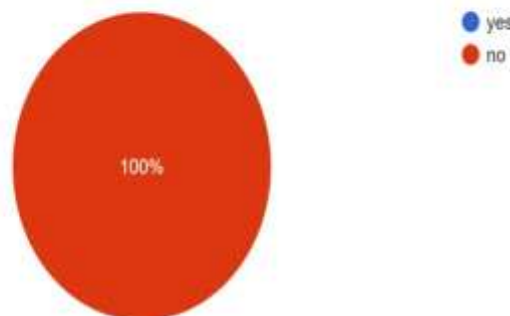
Do you have any information about insurance?

95 responses



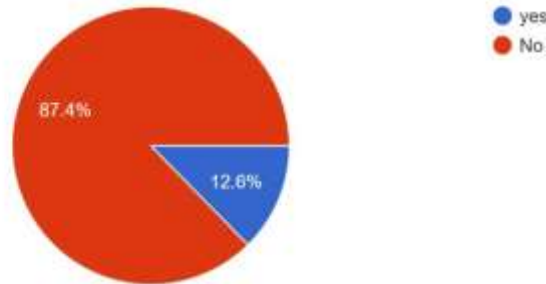
Are you planning on cancelling any existing life insurance?

95 responses



Do you have existing life insurance?

95 responses



## DATA ANALYSIS & INTERPRETATION

### Evolution and growth of Insurance sector

The Indian insurance sector is dominated by the public sector insurers, even though this sector has been opened up to private and foreign players and the private sector insurers are gradually increasing their presence. From being an exclusive state monopoly and restricted market to a competitive and open one, the insurance sector in India has experienced a paradigm shift in the last couple of years. The insurance sector in India has been marked by remarkable growth. The total insurance premiums in India during 2017 increased at a rapid rate of 10.1 per cent as compared to a rate of increase of 1.5 percent of their global counterparts (IRDAI, 2018). Life insurance continues to dominate with its enormous market share. The product mix of the sector has changed due to the unveiling of innovative products like unit-linked insurance plans in the life insurance sector and new distribution channels such as bancassurance. Online distribution and NBFCs are broadening the reach of the sector (IBEF, 2019). Among the 24 life insurers currently operating in the Indian market, the Life Insurance Corporation (LIC) is the sole public sector company. Motor, health, and crop insurance segments are driving growth in the non-life insurance segment. Among the 35 non-life insurers, there are six public sector insurers. In addition to these, there is the sole national re-insurer, General Insurance Corporation of India (GIC Re). Other stakeholders in the Indian insurance market include individual and corporate agents, brokers, surveyors, and third-party administrators servicing health insurance claims.

### Composition of insurance Sector

The life insurance industry is expected to increase at a CAGR of 5.3% between 2019 and 2023. India's insurance penetration was pegged at 4.2% in FY21, with life insurance penetration at 3.2% and non-life insurance penetration at 1%. In terms of insurance density, India's overall density stood at US\$ 78 in FY21. Premiums from India's life insurance industry are expected to reach Rs. 24 lakh crore (US\$ 317.98 billion) by FY31.

There are 24 life insurance and 34 non-life insurance companies in the Indian market who compete on price and

services to attract customers, whereas there are two reinsurance companies. The industry has been spurred by product innovation and vibrant distribution channels, coupled with targeted publicity and promotional campaigns by insurers.

The market share of private sector companies in the general and health insurance market increased from 48.03% in FY20 to 49.31% in FY21. The gross first-year premium of life insurers increased by 12.93% in 2021-22 to Rs. 314,262.42 crore (US\$ 40.06 billion). In

FY22, premiums from new businesses of life insurance companies in India stood at US\$ 40.06 billion. The sum insured for the life insurance industry grew at 16.81% in 2021-22. In May 2022, life insurers' new business premium grew by 88.64% to Rs. 24,480.36 (US\$ 3.12 billion) as per Life Insurance Council data.

### Reinsurance sector of India

Following the nationalisation of the non-life market by the Indian government in 1972, GIC was set up, tasked to supervise and control property and casualty insurance, which at the time was wrapped around four major national insurance entities: New India, Oriental, National and United. GIC was then operating in the market as a reinsurer and shareholder of the four direct non-life companies.

With the establishment of the regulatory authority IRDAI, GIC Re underwent a major reorganisation in December 2000. The company withdrew from its four subsidiaries and became a national reinsurer under the name of GIC Re.

Since 2014, GIC Re has benefited from a legal cession of 5% on each and every policy written on the domestic market, excluding premiums transferred to the insurance pools for terrorism and nuclear risks.

During the 2018/2019 year, GIC Re controlled 81% of turnover of the *Indian reinsurance market*, that is 6.357 billion USD.

During the same year, GIC Re's portfolio included 70% in Indian business and 30% in international business.

Mainly active in Asia, the Middle East and Africa, GIC Re has several subsidiaries established in the United Kingdom, Russia, United Arab Emirates, Malaysia, South Africa and



Brazil.

In 2019, GIC Re is ranked 12<sup>th</sup> worldwide in reinsurance and 3<sup>rd</sup> in Asia.

A second local reinsurance company, ITI Re, received the green light from the authorities in December 2016. This first private reinsurer had its licence withdrawn three years later, in May 2019, for (inability) failing to start its activities within the deadlines set by the regulator.

#### **Cross Border Reinsurers (CBR)**

So-called cross-border stakeholders were authorised to operate through their headquarters, regional or liaison offices without any physical presence in the Indian Territory. This is how Scor has been present in the country for nearly 50 years through its Singapore base.

Swiss Re, on its part, has been collaborating with Indian insurers for almost a century while Munich Re has been present on the non-life and life reinsurance market since 1951 and 1957, respectively.

These entities underwrote life and non-life risks in India in accordance with the regulations while being subject to the right of first refusal granted to GIC Re.

IRDAI has recently allowed foreign insurers and reinsurers to open offices at the International Financial Services Centre in Mumbai (Bombay), to carry out reinsurance operations.

#### **Foreign Reinsurer Branches (FRB)**

With the opening of the market to competition, several foreign players were authorised to setup branches there.

It is to ensure a better presence on this high-potential market that the historical stakeholders have set up complete

reinsurance teams there, standing as solution providers, mainly for high-tech, specialty and natural disasters risks.

By 31 March 2019, the market had 10 foreign reinsurance subsidiaries, namely Scor, Munich Re, Swiss Re, Hannover Re, Axa Vie, XL Cat, Gen Re, RGA, Allianz Global and Lloyd's, the latter having two syndicates: Amlin and Market Services India Private.

All foreign reinsurers underwrite 1.497 billion USD of local premiums, that is a market share of 19%. Axa France Vie, Munich Re and Swiss Re alone generate 1.009 billion USD in premiums, i.e., 67% of the foreign reinsurers' premium income.

Potential Growth of insurance in India

Premiums from India's life insurance industry are expected to reach Rs. 24 lakh crore (US\$

317.98 billion) by FY31. In the first half of FY22, the life insurance industry recorded a growth rate of 5.8% compared with 0.8% in the same period last year. The gross first-year premium of life insurers increased by 12.93% in 2021-22 to Rs. 314,262.42 crore (US\$ 40.06 billion).

Between April 2021-March 2022, gross premiums written off by non-life insurers reached Rs. 220,772.07 crore (US\$ 28.14 billion), an increase of 11.1% over the same period in FY21. In May 2022, the total premium earned by the non-life insurance segment stood at Rs. 36,680.73 crore (US\$ 4.61 billion), a 24.15% increase as compared to the same period in the previous year. The market share of private sector companies in the general and health insurance market increased from 48.03% in FY20 to 49.31% in FY21. Six standalone private sector health insurance companies registered a jump of 66.6% in their gross premium at Rs 1,406.64 crore (US\$ 191.84 million) in May 2021, as against Rs. 844.13 crore (US\$ 115.12 million) earlier.



BIRD'S EYE VIEW OF INSURANCE SECTOR (As at March 31)									
Particular	2018-19			2019-20			2020-21		
	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total
1 Number of insurance companies	24	35	59	24	33	57	24	32	56
2 Number of offices	11,279	11,578	22,857	11,310	11,394	22,704	11,060	11,248	22,308
3 Insurance penetration (%)	2.69	0.90	3.59	2.82	0.94	3.76	3.20	1.00	4.20
4 Insurance density (\$)	55.00	19.00	74.00	58.00	19.00	78.00*	59.00	19.00	78.00
5 Number of new policies issued (lakh)	286.48	1911.78	2,198.26	288.47	2415.09	2,703.56	281.27	2,467.33	2,748.60
6 Total Premium	5,08,132.03	1,72,482.77	6,80,614.80	5,72,910.19	1,92,192.59	7,65,102.78	6,28,731.04	2,02,082.30	8,30,813.34
I. Within India (₹crore)	5,07,761.76	1,69,448.46	6,77,210.22	5,72,531.93	1,88,916.62	7,61,448.55	6,28,330.70	1,98,714.72	8,27,045.42
ii. Outside India (₹crore)	370.27	3,034.30	3,404.57	378.26	3,275.97	3,654.23	400.34	3,367.58	3,767.92
7 Growth in Premium (%)	10.75	12.41	11.18	12.75	11.43	12.41	9.74	5.15	8.59
8. Premium of PSUs (₹crore)	3,37,505.07	71,693.15	4,09,198.22	3,79,389.60	76,539.05	4,55,928.65	4,03,286.55	75,211.29	4,78,497.84
9 Market share of PSUs (%)	66.42	41.57	60.12	66.22	39.82	59.59	64.14	37.22	57.59
10 Assets Under Management (₹crore)	35,33,142.84	3,14,331.33	38,47,474.17	38,90,274.09	3,62,655.67	42,52,929.76	44,79,973.46	4,33,301.36	49,13,274.82
11 Paid-up Capital (₹crore)	27,615.94	16,517.86	44,133.80	28,087.96	21,360.73	49,448.69	28,346.37	32,842.24	61,188.61
12 Other Forms of Capital (₹crore)	230.00	4,656.00	4,886.00	230.00	4,875.00	5,105.00	2,210	4,875.00	7,085.00
13 Commission expenses (₹crore)	27,774.54	12,277.42	40,051.96	31,192.52	13,893.13	45,085.65	32,994.08	15,409.50	48,403.58
14 Operating expenses (₹crore)	51,130.26	28,624.10	79,754.36	60,121.00	35,844.93	95,965.93	61,422.29	38,281.44	99,703.73
15 Claims (₹crore)	3,29,678.28	1,01,051.01	4,30,729.29	3,51,466.70	1,08,390.26	4,59,856.49	3,98,772.47	1,11,549.83	5,10,322.30
16 Income from investments (₹crore)	2,84,800.37	26,288.51	3,11,088.88	2,33,743.74	28,605.52	2,62,349.26	4,66,030.35	29,743.55	4,95,773.90
17 Profit after tax (₹crore)	8,435.81	683.21	9,119.02	7,728.30	-1,494.38	6,233.92	8,660.63	3,852.53	12,513.16
18 Dividend paid (₹crore)	4,441.86	647.92	5,089.78	3,890.03	1,306.21	4,949.04	615.35	1,001.06	1,616.41

The Motor business continued to be the largest general insurance segment with a share of 34.12 per cent (36.50 per cent in 2019-20). It reported de-growth of 1.68 per cent (6.86 per cent growth in 2019-20). The premium collection in the Health segment continued to surge ahead at ₹63,753 crore in 2020-21 from ₹56,865 crore of 2019-20,

registering growth of 12.11 per cent. The market share of the health segment has increased to 32.08 per cent from 30.10 percent of previous year. The premium collection in fire segment increased by 27.87 per cent and in Marine segments decreased by 1.25 per cent in 2020-21.



While five states namely Maharashtra, Karnataka, Tamil Nadu, Delhi UT and Gujarat contributed 66 per cent of total health insurance (excluding PA and Travel), the rest of the States/UTs

have contributed 34 per cent of the total Health insurance premium. The state of Maharashtra alone contributed ₹18,354 crore (32 per cent) of total health insurance premium.

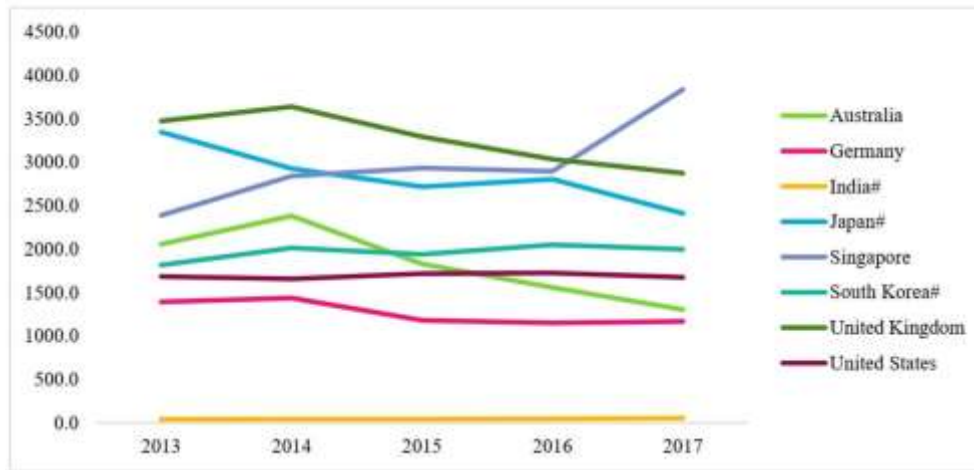
**Table 1: Insurance Penetration and Density in India**

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	4.7
2008	41.2	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
2013	41.0	3.10	11.0	0.80	52.0	3.90
2014	44.0	2.60	11.0	0.70	55.0	3.30
2015	43.2	2.72	11.5	0.72	54.7	3.44
2016	46.5	2.72	13.2	0.77	59.7	3.49
2017	55.0	2.76	18.0	0.93	73.0	3.69

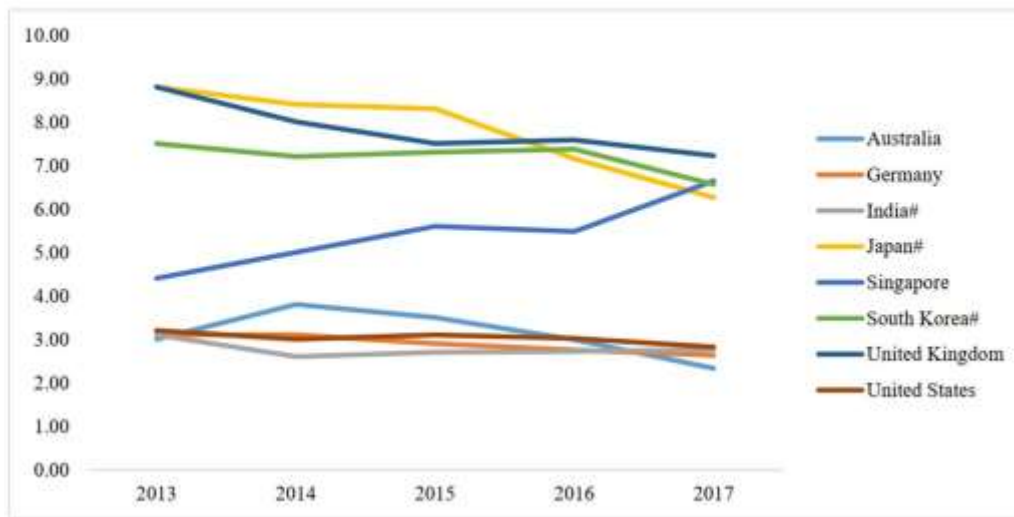
In the past 17 years, the insurance sector of India has risen at a compounded annual growthrate (CAGR) of 16.5 per cent. The penetration and density of the Indian insurance sector is still quite low. The measure of insurance penetration and density reflects the level of development of the insurance sector in a country. While insurance penetration is measured as the percentage of insurance premiums to GDP, insurance density is calculated as the ratio of premiums to population (per capita

premium) (IRDAI, 2018). In the past 16 years, insurance penetration in India rose by a mere 1 percentage point from 2.7 per cent in 2001 to 3.7 per cent in 2017, according to IRDAI data. However, insurance density rose by double digits (CAGR of 12.2 per cent) during the same period. The following table (Table 1) documents the insurance penetration and density in India from 2001 to 2017

**Figure 5: India life insurance density: Comparison with advanced countries (in US \$)**



**Figure 4: India Life insurance penetration: Comparison with advanced countries (in %)**



India's insurance penetration is lower in both life and non-life insurance sectors compared to advanced countries. In 2017, insurance penetration was 11.6 per cent in South Korea, 9.6 per cent in the United States, 8.2 per cent in Singapore, 7.1 per cent in the UK, and only 3.7 per cent in India. India's insurance density is very low compared to the advanced economies even after the reforms. India's insurance density in 2017 is USD 73, whereas Singapore's density is USD 4749, and United States' insurance density is USD 4216. A similar situation prevails in the case of life and non-life insurance penetration and density. Life insurance dominates the sector with a huge share of 74.7 per cent, with non-life insurance accounting for 25.3 per cent market share (IRDAI, 2018). According to data published by Swiss Re, India's share in the global life insurance market was 2.7 per cent during 2017. However, during 2017, the life insurance premium in India increased by 8.0 per cent (inflation

adjusted) when global life insurance premiums increased by 0.5 per cent. However, a comparison with advanced countries (shown in Figures 4 and 5) reveals that India's insurance penetration and density is lower in life insurance sectors. India's life insurance penetration is 2.8 per cent in 2017, while for countries like the UK it is as high as 7.2 per cent and for Singapore and South Korea it is 6.6 per cent respectively.

### SUGGESTIONS

- The Government of India has made several efforts to support the insurance sector like increasing the FDI limit, aiming to dilute 7% stake of LIC and many others. These efforts should be consistently made every year so that the insurance sector boosts and has a multiplying effect on the GDP



- Awareness should be spread about different types of insurance and their availability through various ads, promotion campaigns etc
- In general, the public has relatively limited access to insurance. In order to deliver their insurance and reach the rural populace, it is advised that privatelife insurers form joint ventures
- Certain insurance policies should be given at low premium so that even the poor can access it thus spreading its reach
- Insurance is just seen as a savings scheme rather than a protection scheme. This perception should change so that the policy users and awareness is among everyone.
- Apart from life insurance there is also a huge scope for other insurance policies to grow as they are equally important. Therefore, equal focus should be put on all types of policies.

## CONCLUSION

We can infer from this study that good performance of insurance companies in India will result in the growth of the insurance market in India as well as contribute to GDP. There is also need to penetrate into rural areas in a big way since huge market potential lies in rural India. In addition to that growth rate of the Indian insurance industry is rising.

From the above analysis we can observe that trend percentages are increasing, so we can conclude it is improving year to year and but still India has less density percentage in the world wide. There is need to penetrate into rural areas in a big way since huge market potential lies in rural India.

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