

Emergence of Insurance Sector in India : Opportunities and Challenges Ahead

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ABSTRACT

This paper provides detailed information about the growth of insurance sector in India and discusses how the sector is witnessing a significant growth in urban and semi urban markets. It also explores the growth that the sector underwent under the government control, reforms that occurred within the sector and the need for further reforms. In India, there is a vast potential in the Insurance sector that still untapped as only 3.2% of Indian population is within the bracket of Insurance which in most of the advanced countries is 100%. This vast untapped potential is the key attraction to both domestic and global insurance players operating here. An effort has been made in the paper to present the status of evolving insurance sector in India, opportunities and innovations therein and challenges that it faces in the years to come.

Introduction

The Indian economy has grown at an average rate of above 8% over the last four years. This has led to the emergence of innovative practices that allow business and public service to operate at a high growth rate in an environment where the support systems are getting augmented concurrently.

In this era of high economic growth Insurance is burgeoning as an upcoming service provider that is witnessing hordes of players leaping on to it. The liberalization, privatization and globalization policies of government of India along with revolution in the field of Information and Communication technology offer a significant opportunity to the sector for doing meaningful business in India.

A large young working population with a median age of twenty four years, nuclear family in urban areas, increasing working women population and emerging opportunities in services sector are going to be the key factors in growth of Insurance sector in India.

Insurance today is not restricted just to life rather it envisages a large number of areas such as Health Insurance, Automobile Insurance, Property Insurance, Casualty Insurance, Liability Insurance, Title Insurance, Credit Insurance, Terrorism

Insurance, Political risk Insurance etc.

In this paper an effort has been made to present the status of evolving insurance sector in India, opportunities and innovation therein and challenges that it faces in years to come.

Growth and Development

In India, insurance has an old history. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, through Indian Insurance Companies Act the Government was able to collect statistical information about both life and non-life business in India. The growth in the sector was so high that by 1950 there were a large number of insurance companies in India operating in an environment of cut-throat competition and some were even resorting to unfair trade practices so as to derive better profit margins. This made Government of India nationalize the insurance business and finally through an Ordinance issued on 19 January, 1956 the Life Insurance sector got nationalized and Life Insurance Corporation of India (LIC) came into existence. LIC had monopoly over the insurance sector in India until the late 90s till the sector was reopened to the private insurance groups.

In 1993 under the chairmanship of RN Malhotra, former Governor of RBI, a committee was

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instituted to propose recommendations for reforms in the insurance sector. The committee submitted its report in 1994 wherein as one of its recommendations it permitted the private sector to enter the insurance industry.

On the basis of the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry in India with the objective to enhance customer satisfaction through increased customer choice.

The IRDA opened up the market in August, 2000 by allowing private companies to solicit insurance by allowing FDI up to 26%.

The Privatization Process

Insurance has always been a politically sensitive subject in India. The Indian government nationalized private insurance companies in 1956 to raise funds for country's development. The privatization process was not easy as any suggestion of letting private players into this important sector faced serious resistance and agitation from employees unions.

In 1991-96 when liberal changes occurred in India's economic structure the coalition government in power declared the opening up of insurance sector to the private parties. This decision was welcomed by the big private players who claimed that opening up insurance will give policy holders better products and service; but criticized by trade unions and left party supporters of the government as they believed that in a poor country like India insurance sector first of all required a social angle which a private player may neglect. However, since its opening up, the insurance sector has steadily grown in India and today there are twenty three private insurance companies operating in India (as shown in the Table 1)

Post Privatization Growth

The insurance industry has grown by 83 per cent since the opening up of the sector and the premium income has also risen to Rs 82,415 crore in 2003-04, against Rs 45,000 crore in 2000-01 and in 2005-06 there has been a 15-16 percent rise in premium collected from life insurance sector and a 14 per cent rise in the premium collected from non-life insurance sector. This growth was backed up by a healthy demand from the health insurance sector

which is expected to continuously grow by 10-15 per cent on a year on year basis.

Table 1 : Major Players in the Insurance Sector

S.No.	Name of the Company
1	HDFC Standard Life Insurance Company Ltd.
2	Royal Sundaram Alliance Insurance Company Ltd.
3	Reliance General Insurance Company Limited
4	Max New York Life Insurance Co. Ltd.
5	ICICI Prudential Life Insurance Company Ltd.
6	IFFCO Tokio General Insurance Co. Ltd
7	Kotak Mahindra Old Mutual Life Insurance Ltd.
8	TATA AIG General Insurance Company Ltd.
9	Birla Sun Life Insurance Company Ltd.
10	Tata AIG Life Insurance Company Ltd.
11	SBI Life Insurance Company Ltd.
12	Bajaj Allianz General Insurance Company Ltd.
13	ING Vysya Life Insurance Company Private Ltd.
14	ICICI Lombard General Insurance Company Ltd.
15	Bajaj Allianz Life Insurance Company Ltd.
16	MetLife India Insurance Company Pvt. Ltd.
17	AMP Sanmar Life Insurance Company Ltd.
18	Aviva Life Insurance Co. India Pvt. Ltd.
19	Cholamandalam General Insurance Company Ltd.
20	Export Credit Guarantee Corporation Ltd.
21	HDFC-Chubb General Insurance Co. Ltd.
22	Sahara India Insurance Company Ltd.
23	Shriram Life Insurance Company Ltd.

The cap on foreign direct investment which is presently 26 percent if increased to 49 per cent may contribute towards an increased growth with the entry of further private players but this, may also pose a threat to the public sector players.

Opportunities and Challenges

On recommendation of the Malhotra Committee private players were allowed to enter into the insurance market, today there are almost twenty three players who have entered the Indian insurance market besides the giant Life Insurance Corporation of

India (LIC) and in the field of general insurance there has been a de-linking of the four subsidiaries of the General Insurance Corporation of India (viz. Oriental Insurance Company Ltd., New India Assurance Company Ltd., National Insurance Company Ltd. and United India Insurance Company Ltd.) from the parent company. The entry of private players and their foreign partners has further intensified the competition, because the opening up of the sector has brought in better professional techniques and technologies. The present scene in India is such that every insurance company is trying to put in its best efforts and one can visualize that the strategies are directed more for survival than growth. However, the most important gift of privatization is the introduction of customer-oriented service as utmost care is being taken to maximize customer satisfaction.

Opportunities

The vast untapped potential for insurance in India provides certain opportunities that are the key attraction to both domestic and global insurance players operating here; and offers lucrative employment opportunities for the country's ever increasing population.

1. Vast Untapped Urban and Rural Potential

India is a densely populated country and its population is likely to be more than that of China by 2050. Apart from urban population there is also a large potential untapped in rural and semi-rural markets. In a country of over 1 billion people, the income levels are likely to triple in next twenty years, this will create a strong middle class society and hence demand for insurance products is likely to further increase.

2. Increased Employment Opportunities

The liberalization of the insurance sector has opened several new job opportunities for those who are equipped with degrees in finance. Finance professionals who had bleak career opportunities earlier are today much relieved and are actively pursuing a career in the Insurance sector. The sector has also created a strong demand for marketing specialists, finance experts and human resource professionals and demand for professionals in streams like claims management and actuarial sciences has also risen.

3. Diversified Career Opportunities

There has also been an evolution in service-

related fields like training, seminars, workshops, know-how transfer regarding risk assessment and rating, risk inspections, risk management etc. This has further elevated the demand for skilled professionals and today insurance sector provides diversified career opportunities.

4. Growth of Ancillary Industries

Insurance products are moving along a continuum from pure service products to pure commodity products and sellers are today using channels such as the telephone or direct mail and various other intermediaries for selling insurance policies and plans. Robust growth that the sector has witnessed post privatization has also benefited other ancillary industries as intense competition has created a significant increase in demand for advertising and brand building activities.

5. Bancassurance

Banks have entered the insurance business by leveraging their strengths in the areas of brand image, distribution network, and face to face contact with the clients and telemarketing using advanced information technology systems. This has not just increased their product portfolio but has also given them an opportunity to increase their revenue base.

Challenges

Though a number of opportunities have become available with the growth of Insurance sector in India the picture is not gloomy everywhere, some challenges are there that soar this picture. Rising customer awareness has created a demand for customized and flexible products. Insurance companies are heavily investing in new technology to reduce their operational cost and hence the price of insurance products. The survival of new insurance companies shall solely depend on their ability to trace out niche market, develop the right product mix and effectively brand products and service. The major obstacles in the growth path of insurance companies in India are:

1. Skilled Manpower and Technology

In this competitive financial services environment, effective organizations are employing technology in a strategic way so to achieve a competitive edge. Technology is being used for designing and delivering of products, this demands heavy investment in not just in technology but also in

technically skilled manpower which already faces acute shortage due to the hefty pay packages and growth prospects offered by the IT companies.

2. Increased Competition

Many Indian private insurance players today are having a joint venture partner and competing with large and well-established government-owned players. Overcoming regulatory hurdles and satisfying high customer expectations is a big challenge for them. Also, for long-term survival in India apart from having clear-cut objectives they also require a regular monitoring at all levels which increases the operational cost thereby affecting profit margins.

The Road Ahead

Due to increasing competition, the rules of the game are set to change. The market is already offering a wide array of products from players whose number is bound to grow. Consumers are increasingly becoming aware and are actively managing their financial affairs. Today, people are looking for not just at products, but at integrated financial solutions that satisfy their myriad needs. Insurance products are getting customized and Insurance today has emerged as an attractive and stable investment alternative that offers total protection for Life, Health and Wealth.

There has been a sea change in the demand for insurance products. Along with the sales of traditional life insurance products, sales of new products like single premium, investment linked, retirement products, variable life and annuity products has also risen. Firms will need to constantly innovate in terms of product development to meet the ever-changing consumer needs.

In this competitive scenario, a key success factor will be enhanced customer experience and maximum customer convenience. Long-term growth in the business will largely depend on the distribution network adopted and insurance agents will have to act as financial advisors. This would require a strong focus on training of the sales force so as to build a lasting relationship with the customer. This would help create a sustainable competitive advantage that cannot be easily matched.

Conclusion

Over the past three years, around forty companies have shown interest in entering the sector and many foreign and Indian companies have arranged anticipatory alliances. As seen in other countries where

liberalization has recently taken place, we can safely conclude that nationalized players will continue to hold a strong market share, but there will be ample opportunity for other insurance players as well.

Opening up of sector has increased demand for new products and improved customer service. Both new and existing players will have to explore new distribution and marketing channels and develop appropriate product and pricing strategies after properly segmenting the market to remain competitive.

Competition will surely cause the sector to grow beyond current rates and insurance players will have to offer wider choice to the customer by introducing new products, services and price options to increase their market share.

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