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THE INSURANCE ROLE IN ECONOMIC DEVELOPMENT OF INDIA A STUDY

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ABSTRACT

The development of Indian economy was dominated by socialist and influenced by policies, state owned sectors. The Indian economy collectively known as “License Raj”, the economic development of India got upraised through its economic reforms in the year 1991 and again through its renewal in the year 2000. Insurance sector provides a service to a number of valuable economic functions that are largely distinct from other types of financial agencies. The insurance sector contributed more for the economic growth by improving the investment nature and encouraging more efficient mix of activities than would be undertaken in the absence of risk management instrument.

The most booming sector of the Indian economy is insurance sector and the growing at the rate of 15-20 percent per annum. In insurance is thriving industry with several national and international players competing with each other's and developing at rapid rates, Indian insurance sector offers a comprehensive plans this helps for the increasing the wealth of middle class people due to the growing demand.

KEYWORDS: Investment Environment, Nominal GDP, License Raj, Economic reforms, Purchasing Power Parity (PPP)

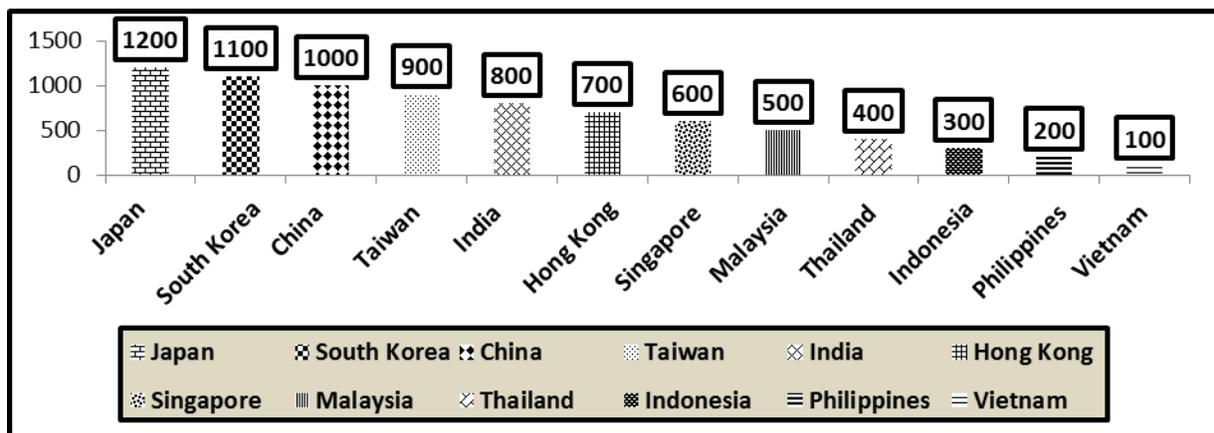
INTRODUCTION:

The economic development of country is depends on the investment pattern of people and investments are essential. Investments are made out of savings. Life insurance sector is a major investment sector for the mobilization of savings of people, particularly from the middle and lower group of people. All best life insurance companies have huge funds accumulated through the payments of small amounts of premium of individuals. Those funds are invested that contributes substantially for the economic development of the country in which they do business. The system of insurance provides direct and indirect benefits to the individuals and his family as well as to industry, commerce, and nation and to the communities of a whole. Current day organization of industry, commerce and trade depends entirely on insurance for their operation, banks and financial institutions lend money to industrial and commercial undertakings only on

the basis of collateral securities of insurance. The 1991 economic reform played a pivotal role in the economic development of India. Reaping its benefit the growth of the country reached around 7.30% in the year 2017, January. Insurance is a risk transfer mechanism whereby the individuals or the business enterprise can shift some of the uncertainties of life on the shoulder of other. In peace the insurance provider of trade industry which ultimately contribute towards human progress. Thus, insurance is the most lending force contributions towards social, economic and technological progress of a man.

The Indian insurance market is the 19th largest globally and ranks 5th in Asia, after, Japan, South Korea, china and Taiwan. In 2015, total gross premium collected amount to USD17.3 billion representing just under 0.6 of world premiums. Similar to the pattern observed in other regional market and reflecting the country’s high rate, life insurance business accounted for 78.96%of total gross premium collected in the year 2015, against fro non-life insurance business.

Figure: 1



Source: IRDAI Annual Report.

Another measure of insurance development is per capita spending on insurance, i.e. insurance density. By this measure India is among the lowest-spending nations in Asia in respect of purchasing insurance. An average Indian spent USD16.4 on insurance products comprising USD 12.9 for life insurance and USD 3.5 for non-life insurance products. One factor that has been slowing down the improvement of insurance density is India’s relatively high population growth rate, which has averaged 1.7% over the past ten years.

REVIEW OF LITERATURE:

Marjina Curak Sandra Loncar in paper Insurance Development and Economic Growth Nexus examines empirically if the insurance sector plays a growth supporting role while controlling for other influences an economic growth. The author conclude that life insurance companies are important for growth even after controlling for other influences on economic growth. In other words Life insurance does not simply follow economic growth but it positively contributes to it. *Ward and Zurbruegg (2000)* examine relationship between growth in insurance activity and economic growth for nine OECD countries during the period from 1961-1996. The author conclude that the casual relationships between insurance and economic growth might well vary across countries because of the influence of number of countries specific factors such as cultural, regulatory and legal environment, the improvement in financial intermediation and the moral hazard effect in insurance.

Another empirically country case analysis is the one by *Adams et.al. (2006)* which examines the dynamic historical relation between banking insurance and economic growth in Sweden in the period from 1830 to 1998. They use time series data and econometric tests for co integration and granger causality. The result shows that the development of banking but not insurance preceded economic growth during the 19th century while it was reversed in the twentieth century. Insurance development appears to be driven more by the pace of growth in the economy rather than leading economic development over the entire period of analysis.

OBJECTIVES AND METHODOLOGY:

The essence of this research paper examines the role of insurance in economic development of India and also the changes occurred till day by differentiating the developing and developed economic growth of India.

The present research study is mainly based on secondary data and information the sources of which have been compiled from different government records publication and related books and articles.

THE STUDY:

ROLE OF INSURANCE IN ECONOMIC DEVELOPMENT:

As per the provisional estimates of Annual National Income, 2015-16 released by CSO, MOSPI, GOI, Real GDP or GDP at constant (2011-12) prices for the year 2015-16 is showing a growth rate of 7.6 percent against a growth rate of 7.2 for the previous year 2014-15. The real GVA i.e. GVA at basic constant (2011-12) prices for the year 2015-16 is showing a growth rate of 7.2 percent against 7.1 percent for the previous year 2014-15.

The sectors which registered an estimated growth rate of over 7.0 percent are financial real estate and professional services' (10.3 percent), 'manufacturing' (9.3 percent), 'trade, hotels, transport, communication and services related to broadcasting' (9.0 percent), and mining and quarrying' (7.4 percent). The estimated growth rate is 1.2 percent in agriculture, forestry and fishing', 3.9 percent in 'construction', 6.6 percent in electricity, gas water supply & other utility services', 6.6 percent in 'public administration, defense and other services'.

The Gross National Income (GNI) at 2011-12 prices is estimated to have risen by 7.5 percent during 2015-16 in comparison to the growth rate of 7.3 percent in 2014-15. The growth rate in per capita income is estimated at 6.2 percent during 2015-16, against 5.8 percent in the previous year.

BRIEF HISTORY OF THE INDIA INSURANCE SECTOR:

The business of life insurance in India in its existing form started in India in the year 1818 with establishment of the Oriental Life Insurance Company in Calcutta.

Some of the important milestones in the life insurance business in India are:

- 1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.
- 1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance business.

- 1938: Earlier legislation consolidated and amended to buy the insurance Act with the objective of protecting the interest of the insuring public.
- 1956: 245 Indian and Foreign insurers and provident societies taken over by the central government and nationalized. LIC formed by an Act of parliament, viz LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.

The general insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by British.

Some of the important milestones in the general insurance business in India are:

- 1907: The Indian Mercantile Insurance Ltd. Set up, the first company to transact all classes of general insurance business.
- 1957: General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.
- 1968: The insurance act amended to regulate investment and set minimum solvency margins and the Tariff Advisory Committee set up.
- 1972: The General Insurance Business (Nationalization) Act, 1972 nationalised the insurance business in India with effect from 1st January 1973.
- 107 insurers amalgamated and grouped into four companies viz, the National Insurance Company Ltd. And the United India Insurance Company Ltd. GIC incorporated as a company.

INSURANCE SECTOR REFORMS:

In 1993, Malhotra Committee headed by former Finance Secretary and RBI Governor R.N. Malhotra was formed to evaluate the Indian insurance industry and recommended its future direction.

The Malhotra committee was setup with objective of complimenting the reforms initiated in the financial sector. The reforms were aimed at “creating a more efficient and competitive financial system suitable for the requirements of the company keeping in mind the structural

changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms.

In 1994, the committee submitted the report and some of the key recommendations included.

1) Structure -

- ❖ Government stake in the insurance companies to be brought down to 50%
- ❖ Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations.
- ❖ All the insurance companies should be given greater freedom to operate.

2) Competition -

- ❖ Private companies with a minimum paid up capital of Rs. 1 billion should be allowed to enter the industry.
- ❖ No company should deal in both Life and General insurance through a single entity.
- ❖ Postal Life Insurance should be allowed to enter the industry in collaboration with the domestic companies.
- ❖ Only one state level Life Insurance Company should be allowed to operate in each state.

3) Regulatory Body -

- ❖ The insurance Act should be changed.
- ❖ An Insurance Regulatory body should be set up.
- ❖ Controller of Insurance (Currently a part from the finance ministry) should be made independent.

4) Investments -

- ❖ Mandatory investments of LIC Life Fund in government securities to be reduced from 75% to 50%.
- ❖ GIC and its subsidiaries are not to hold more than 5% in any company (Their current holdings to be brought down to this level over a period of time).

5) Customer Service -

- ❖ LIC should pay interest on delays in payment beyond 30 days.
- ❖ Insurance companies must be encouraged to set up unit linked pension plans.

- ❖ Computerization of operations and updating of technology to be carried out in the insurance industry. The committee emphasized that in order to improve the customer services and increase the coverage of the insurance industry should be opened up to competition.

MARKET SHARE OF INDIAN INSURANCE INDUSTRY:

Notwithstanding the rapid growth of the sector over the last decade insurance in India remains at an early stage of development. As of 2016, life insurance sector has 29 private sector players in comparison to only four in Financial Year 2002. With 70.4 percent market share in Financial Year 2016, LIC continues to be the market leader.

The Life Insurance Market grew from US\$ 10.5 billion in the Financial Year 2002 to US\$ 27.5 billion in the Financial Year 2016. Over a financial year 2002-2016, life insurance premium expanded at CAGR of 7.5%, the life insurance industry has the potential to grow 2 to 2.5 times by 2020 in spite of multiple challenges supported by long term trends trend and fundamentals underlying household savings. Indian insurance ranked 15 place in the year 2011, Indian insurance growth in the world life insurance 56.68 (78.96) Non-Life insurance 15.10 (21.04) total in US\$ 71.78 (100.00).

Table No: 01

LIFE INSURANCE PREMIUM AND NON-LIFE INSURANCE PREMIUM IN INDIA FOR LAST TEN YEAR

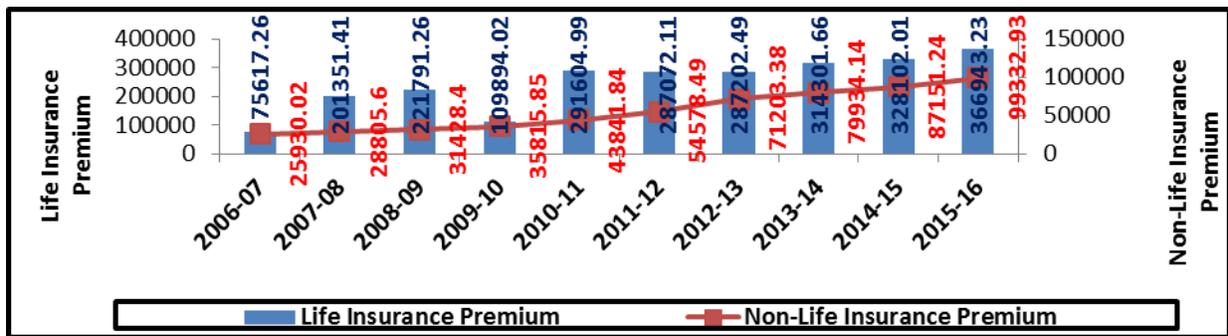
Year	Life Insurance Premium (Rs. In Crore)	Growth Rate in %	Non-Life Insurance Premium (Rs. In Crore)	Growth Rate in %
2006-07	75617.26	Base Year	25930.02	Base year
2007-08	201351.41	166.27	28805.60	11.08
2008-09	221791.26	10.15	31428.40	9.10
2009-10	109894.02	-50.45	35815.85	13.96
2010-11	291604.99	165.35	43841.84	22.40
2011-12	287072.11	-1.55	54578.49	24.48
2012-13	287202.49	0.04	71203.38	30.46
2013-14	314301.66	9.43	79934.14	12.26
2014-15	328102.01	4.39	87151.24	9.02
2015-16	366943.23	11.83	99332.93	13.97

Source: IRDA Annual Report

The above table explains about the life insurance premium and Non-life insurance in India for the last ten years. From the above table the life insurance premium was Rs. 75,617.26 crore i.e. in the year 2006-07 and growth rate was 166.27%. Non-Life insurance premium was Rs. 25,930.02 i.e. in the year 2006-07 and the growth rate were increased i.e. 30.46%.

In the year 2015-16 Life insurance premium was increased compare to previous year i.e. Rs. 3, 66,943.23 Crore and the growth rate was increased compare to previous year i.e. 11.83% and Non-Life insurance premium was also increased in the year 2015-16 i.e. Rs. 99,332.93 and growth rate was also increased to i.e. 13.97%

Figure: 2
LIFE INSURANCE PREMIUM AND NON-LIFE INSURANCE PREMIUM IN INDIA FOR LAST TEN YEAR



Source: IRDA Annual Reports.

Table: 3
Name of the Players in the Market

Name of the Company	Nature of Holding
Life Insurance Corporation of India	Public Sector
Allianz Bajaj Life Insurance Company Ltd.	Private Sector
Birla Sun-Life Insurance Company Ltd.	Private Sector
HDFC Standard Life Insurance Company Ltd.	Private Sector
ICICI Prudential Life Insurance Company Ltd.	Private Sector
ING Vysya Life Insurance Company Ltd.	Private Sector
Max New York Life Insurance Company Ltd.	Private Sector
MetLife Insurance Company Ltd.	Private Sector
Om Kotak Mahindra Life Insurance Company Ltd.	Private Sector
SBI Life Insurance Company Ltd.	Private Sector
TATA AIG Life Insurance Company Ltd.	Private Sector
AMP Sanmar Assurance Company Ltd.	Private Sector
Dabur CGU Life Insurance Company Ltd.	Private Sector
GENERAL INSURANCE	
National Insurance Company Ltd.	Public Sector
New India Assurance Company Ltd.	Public Sector
Oriental Insurance Company Ltd.	Public Sector
United India Insurance Company Ltd.	Public Sector
Bajaj Allianz General Insurance Company Ltd.	Private Sector
ICICI Lombard General Insurance Company Ltd.	Private Sector
IFFCO –Tokio General Insurance Company Ltd.	Private Sector
Reliance General Insurance Company Ltd.	Private Sector
TATA AIG General Insurance Company Ltd.	Private Sector
Cholamandalam General Insurance Company Ltd.	Private Sector
Export Credit Guarantee Corporation	Private Sector
HDFC Chubb General Insurance Company Ltd.	Private Sector
REINSURER	
General Insurance Corporation of India	Reinsurer

Source: IRDA Annual Reports.

SCENARIO OF INSURANCE INDUSTRY IN 2016:

The life insurance sector recorded a new premium income of Rs. 1.38 trillion in a year, i.e. April 2015 to March 2016. This indicated a dramatic growth rate of 22.5% in the premium income, whereas the general insurance sector centered on two-wheeler insurance policy (particularly) recorded a 12% of growth by receiving a premium income of Rs. 105.25

billion during the year, i.e. April 2016 to March 2017. The life insurance sector offers about 360 million policies, which count to be the largest in the world. Still, it is expected to cross compound annual growth rate of 12 to 15% in the next 5 years. It is expected that the Indian insurance market will quadruple in size over the next 10 years and the life insurance sector is expected to collect more than US \$160 billion. There are a lot of opportunities in the Indian insurance market. Currently, the general insurance business in the Indian market accounts for more than Rs. 70,000 Crore premiums yearly, and it is growing at a positive rate of 17% every year.

Despite being the second highly populous country in the world, Indian insurance market accounts for less than 1.5% of the world's total insurance premium.

Table No: 04
NAME OF THE COMPANY AND THEIR SHAREHOLDING PATTERN

Name of the Insurance Company	Share Holding
Agriculture Insurance Company	Privately Held
Bajaj Allianz General Insurance Company Ltd.	Privately Held
Cholomandalam MS General Insurance Co.	Public Held
Export Credit Guarantee Company	Private Held
HDFC Chubb General Insurance	Private Held
ICICI Lombard General Insurance Company Ltd.	Privately Held
IFFCO-Tokio General Insurance Company Ltd.	Privately Held
National Insurance Company Ltd.	Public Sector
New India Assurance Company Ltd.	Public Sector
Reliance General Insurance Company Ltd.	Privately Held
Royal Sundaram Alliance General Insurance Co. Ltd	Privately Held
Tata AIG General Insurance Company Ltd.	Privately Held
United India Insurance Company Ltd.	Public Sector
Oriental Insurance Company Ltd.	Public Sector

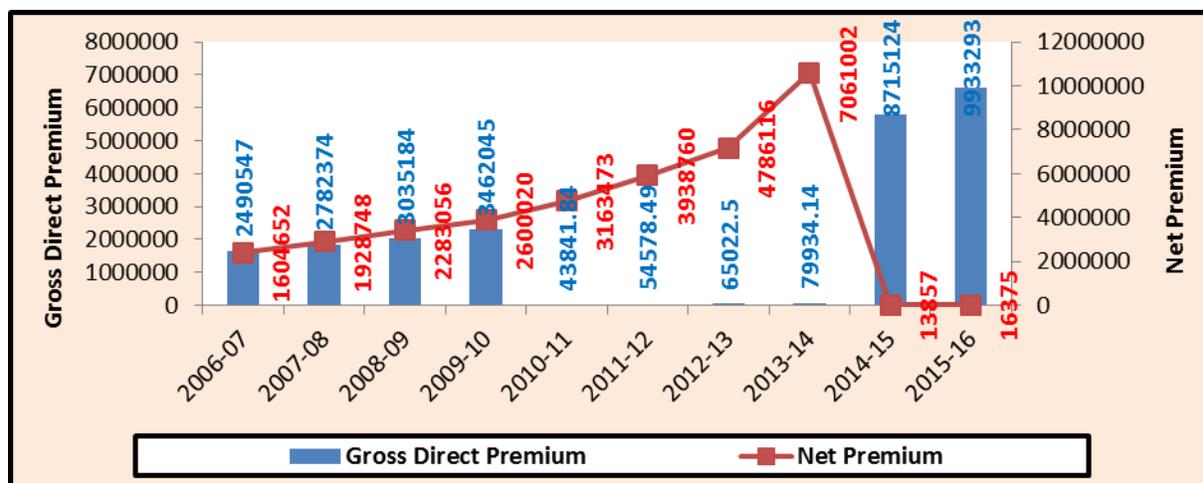
Table No: 05**GROSS DIRECT PREMIUM AND NET PREMIUM IN INDIA FOR LAST TEN YEARS****Source:** IRDAI Annual Report.

Year	Gross Direct Premium (Rs. In Crore)	Growth Rate in %	Net Premium (Rs. In Crore)	Growth Rate In %
2006-07	2490547.00	Base Year	1604652.00	Base Year
2007-08	2782374.00	11.71	1928748.00	20.20
2008-09	3035184.00	9.09	2283056.00	18.36
2009-10	3462045.00	14.06	2600020.00	13.88
2010-11	43841.84	-98.73	3163473.00	21.67
2011-12	54578.49	24.48	3938760.00	24.50
2012-13	65022.50	19.13	4786116.00	21.51
2013-14	79934.14	22.93	7061002.00	47.53
2014-15	8715124.00	108.02	13857.00	-99.80
2015-16	9,93,3,293.00	13.98	16375.00	18.17

The above table dictates about Gross Direct Premium and Net Premium insurance of Indian insurance industry. The gross direct premium was Rs. 24, 90,547.00 in the year 2006-07 and the growth rate was 11.71% and Net Premium was Rs. 1,60,4,652.00 Crore in the year 2006-07 and the growth rate was 20.20% but gross direct premium was increased very rapidly in the year 2015-16 i.e. Rs. 9,93,3,293.00 Crore and growth rate 13.98% and Net premium was Rs. 16,375.00 Crore and the growth rate was 18.17%.

Figure No: 3

GROSS DIRECT PREMIUM AND NET PREMIUM IN INDIA FOR LAST TEN YEARS



Source: IRDA Annual Report.

CURRENT SCENARIO OF INDIAN INSURANCE SECTOR:

With an annual growth rate of 15-20% and the largest number of life insurance policies in force, the potential of the Indian insurance industry is huge. Total value of the Indian insurance market is estimated at ` 450 billion (USD10 billion). According to government sources, the insurance and banking services“ contribution to the country's gross domestic product (GDP) is 7% out of which the gross premium collection forms a significant part. The funds available with the state-owned Life Insurance Corporation (LIC) for investments are 8% of GDP. Till date, only 20% of the total insurable population of India is covered under various life insurance schemes, the penetration rates of health and other non-life insurances in India is also well below the international level. These facts indicate immense growth potential of the insurance sector. The year 1999 saw a revolution in the Indian insurance sector, ending of government monopoly and the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. Though, the existing rule says that a foreign partner can hold 26% equity in an insurance company, a proposal to increase this limit to 49% is pending with the government. Since opening up of the insurance sector in 1999, foreign investments of 8.7 billion have poured into the Indian market and 21 private companies have been granted licenses.

Innovative products, smart marketing, and aggressive distribution have enabled fledgling private insurance companies to sign up Indian customers faster than anyone expected. Indians, who had always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative products on offer. The life insurance industry in India grew by an impressive 36%, with premium income from new business at Rs. 253.43 billion, braving stiff competition from private insurers. LIC has clocked 21.87% growth in business at Rs.197.86 billion by selling 2.4 billion new policies in. But this was still not enough to arrest the fall in its market share, as private players grew by 129% to mop up ₹. 55.57 billion. Though the total volume of LIC's business increased, its market share came down from 87.04 to 78.07%. The 14 private insurers increased their market share from about 13% to about 22% in a year's time. The figures also speak of the growing share of the private insurers. The share of LIC for this period has further come down to 75%, while the private players have grabbed over 24%.

The rate at which the private share has increased, it clearly shows the potential of this sector. In the globalize market scenario India has big role to play. People in India are brand conscious and show loyalty to a brand if they believe in it or have known it for quite a long time is one of the features of Indian market which needs to be understood.

FUTURE PROSPECTS:

The prospects of this industry look promising by way of growth as for as one can judge from the present statistics and the general environment prevailing in the economy. In terms of new product and sources Health insurance and Banc assurance are very likely to dominate the insurance scene in the coming few years. Also, IT is expected to play a big role in the growth of this sector in the coming year.

HEALTH INSURANCE:

Only 1.5–2 per cent of total healthcare expenditure in India is currently covered by insurance providers. From 13.3 per cent of the total non-life insurance premium in FY07, health insurance contributed 28.49 per cent in FY16. Total health insurance premiums increased from USD733.1 million in FY07 to USD4, 084.03 million in FY16, witnessing growth at a CAGR of

21.03 per cent. In FY16 gross direct premium income underwritten under health insurance is USD4.08 billion.

Absence of a government-funded health insurance makes the market attractive for private players IRDA recommended the government to reduce capital requirements for stand-alone health insurance companies from USD21 million to USD10 million.

Introduction of health insurance portability expected to boost the orderly growth of the health insurance sector. Increasing penetration of health insurance likely to be driven by government-sponsored initiatives such as RSBY and ESIC, In FY15, population covered under health insurance through government sponsored schemes reached 351 million. Government-sponsored programmes expected to provide coverage to nearly 380 million people by 2020. Private insurance coverage is estimated to grow by nearly 15per cent annually till 2020. Health insurance coverage to cross 630 million people by 2015, In July 2016, IRDA issued Health Insurance Regulations, 2016. These regulations replace the Health Insurance Regulations, 2013. As per these new norms, companies will provide better data disclosure, pilot products, coverage in younger years, etc. As of May 2016, only 18 per cent of people in urban areas are covered under any kind of health insurance scheme Rashtriya Swasthya Bima Yojana (RSBY) is a centrally sponsored scheme to provide health insurance to Below Poverty Line (BPL) families & 11 other defined categories of unorganized workers, namely building & other construction workers, licensed railway porters, street vendors, MGNREGA workers, etc.

BANC ASSURANCE:

Banc assurance, which is the distribution of insurance products through a banks network, has been adopted by the private players in large scale. This particular method is also expected to take-off in a big way in the coming years due to greater use of technology by insurers as well and bankers along with the fact that the bankers really expanding their product baskets in a big way.

CONCLUSION:

It is very much apparent that the insurance sector is poised for huge growth by way of number of policy holders, policy premium, new product, and increased technology focus; this would in turn play an important role in facilitating and sustaining growth. Life insurance has today become a mainstay of many market economies since it offers plenty of scope for garnering large sums of money for long periods of time. A well regulated life insurance industry which

moves with the times by offering its customers tailor made products to satisfy their financial needs is therefore essential if we desire to progress towards a worry free future.

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