

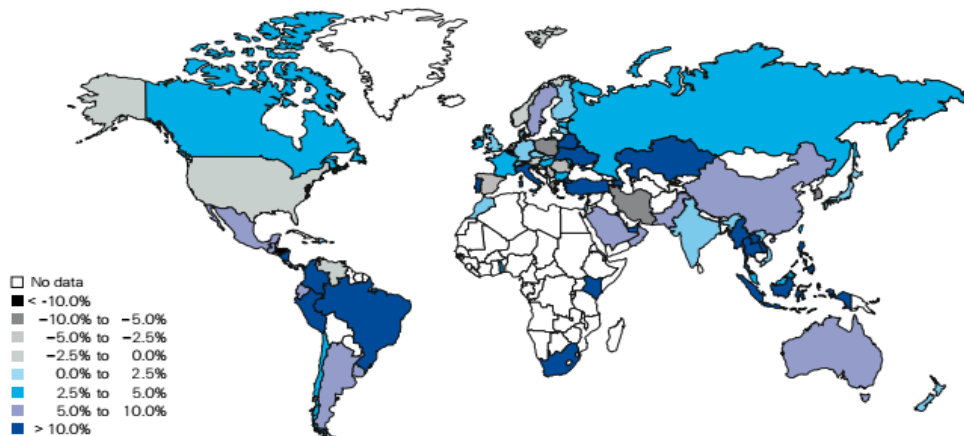
CHAPTER 25 INSURANCE

25.1 Global Insurance Industry : Swiss Re sigma study on world insurance in 2013 says premium growth slowed largely due to weak life sales in advanced markets . In the life sector, notable developments were a return to premium growth in Western Europe, in spite of weak economic growth. However, strong growth in Western Europe and Oceania was offset by a contraction in North America(despite economic recovery in US) and stagnating sales in advanced Asia. Non life premium growth were driven by emerging markets as people are getting wealthier and spending more on non life insurance products. Economic recovery is expected to support premium growth in advanced and emerging markets in 2014 . Overall profitability in the life and non-life sectors improved, despite the impact of still low interest rates on investment returns and the rising interest rates are expected to support insurer investment returns in the longer term only .

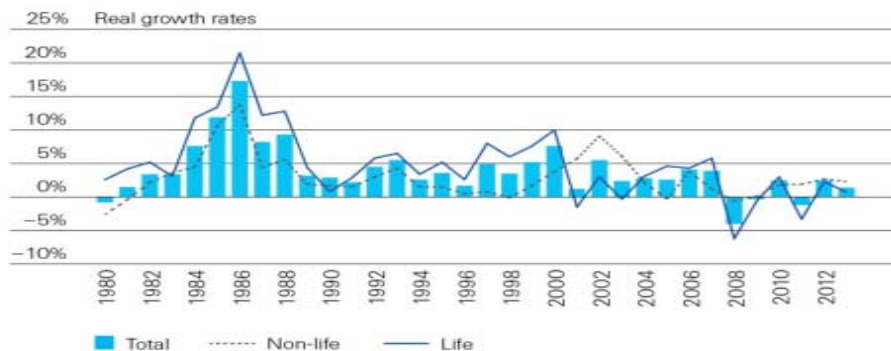
Real Premium Growth in 2013

	Life	Non-life	Total
Advanced markets	-0.2%	1.1%	0.3%
Emerging markets	6.4%	8.3%	7.4%
World	0.7%	2.3%	1.4%

Total Premium Real Growth rates in 2013



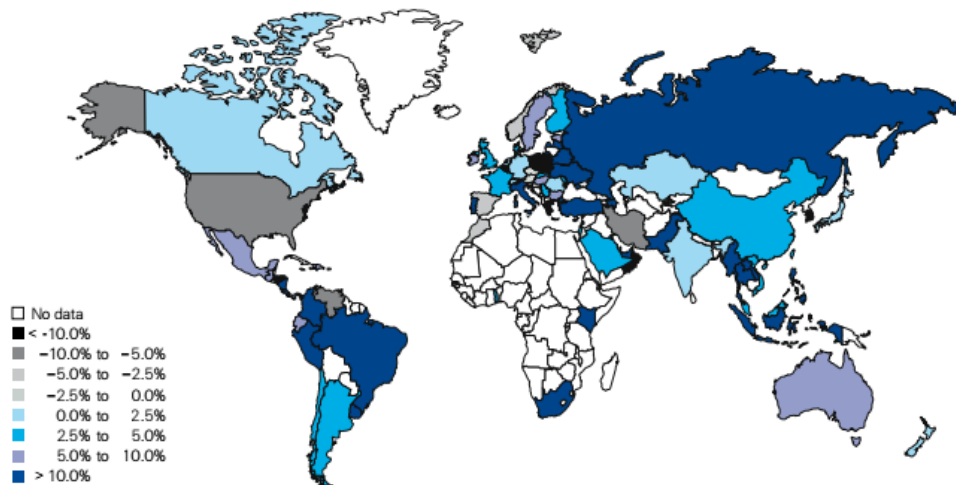
Real Premium Growth Since 1980



Source: Swiss Re Economic Research & Consulting

25.2 Premiums written in the global insurance industry grew by 1.4% in real terms to USD 4 641 billion in 2013 after a 2.5% increase in 2012, says Swiss Re's latest sigma study. The slowdown was primarily due to weakness in the life sector in the advanced markets. Global life premiums were up just 0.7% in 2013 to USD 2 608 billion,(down from 2.3% growth in 2012) with weak sales in North America and the advanced Asian markets offsetting a strong performance in Western Europe, Oceania and most emerging markets. In the **life sector**, notable developments were a return to premium growth in Western Europe, in spite of weak economic growth. Premiums were up 4.0%, having declined in each of the previous three years. Premium growth also was strong in Oceania (up 9.0%) and in the emerging markets, improving to 6.4% from 5.2%. Growth was solid in Latin American and Africa, and resumed in China and India where regulatory changes had prompted a drop in sales in 2012. Premiums in the US contracted sharply by 7.7% due to the non-recurrence of large corporate deals which had boosted group annuity business in 2012, despite of the economic recovery there. Premium growth in the advanced Asian markets was flat relative to the previous year, further offsetting the sector's strong performance in other regions. A slowing but still solid growth performance in most of the region's markets was overshadowed by a 12% decline in South Korea where the ending of a tax benefit led to a sharp fall in single-premium product sales.

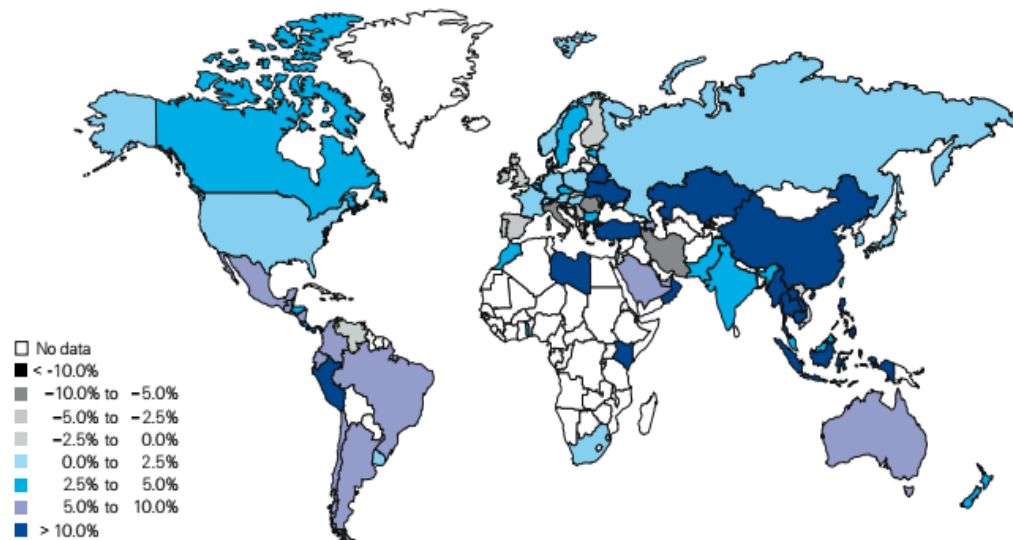
Life : Real Premium Growth in 2013



25.3 Global **non-life** premium growth slowed to 2.3% in 2013 from 2.7% the year before, with total premiums at USD 2 033 billion. In emerging markets non-life premium growth remained strong at 8.3% in 2013 after 9.3% in 2012, and was solid across all regions with the exception of Central and Eastern Europe (CEE). The expansion in emerging Asia was supported by sustained strong growth in Southeast Asia and China. In India, however, non-life sales growth slowed to 4.1% from 8.9% in 2012, due to a lower economy and weaker business sentiment. As for the advanced markets, premium growth was just 1.1% in 2013, down from 1.5% the previous year. This was mainly due to a still-

depressed market in Western Europe, with premiums down 0.3% due to the weak economic environment. In advanced Asia, premium growth slowed to 1.7% from 4.7% in 2012, mainly due to a sharp tax-reform induced slump in South Korea. In the US, premiums grew steadily by 1.7% and in Canada by 3.2%. Non-life growth in advanced markets has remained soft since the financial crisis in 2008. Premiums increased by an annual average of 0.7% between 2009 and 2013 compared with 1.9% in the 2003-2007 period

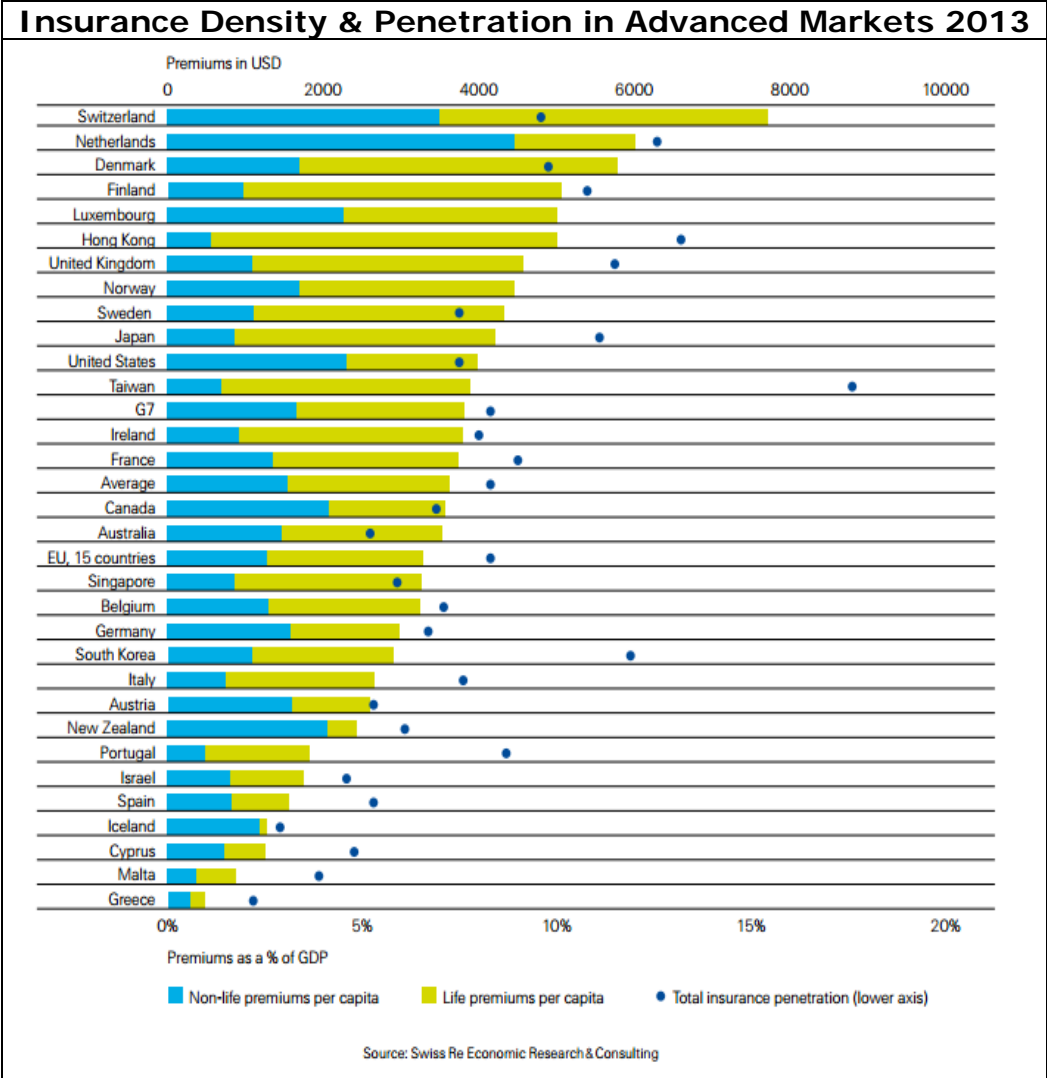
Non Life: Real Premium Growth in 2013



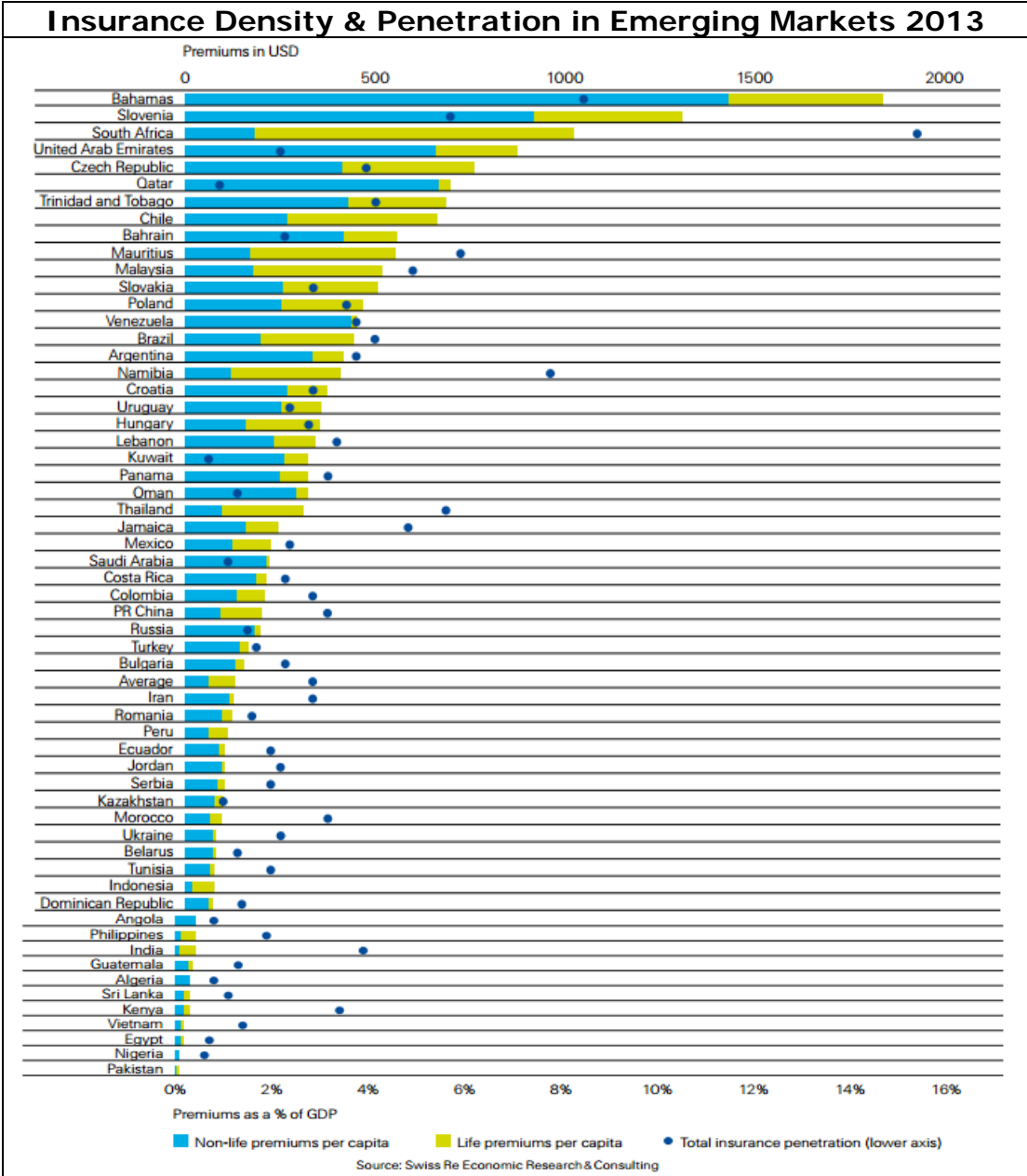
25.4 During 2013 , India's ranking in the world insurance market stayed at 15th with 1.4 % share in world market. The rank slid by four points during 2011 to 15th as its share in world insurance market declined to 1.58 % in 2011(from 1.8 % in 2010) largely on account of drop in life insurance premiums. Countries like Brazil & Spain now rank higher. In Rupee terms, premium volume increased to Rs 3972412 million from Rs 3584059 million & Rs 3468921 million during 2012 & 2011 respectively but the same decreased marginally during 2013 (compared to 2012) in terms of USD .

25.5 **Insurance Density & Penetration:** In 2013 the average per capita spend on insurance in **advanced markets** was USD 3621, down 1% from the previous year. Per capita spending on life insurance fell to USD 2 074 from USD 2132, and in non-life rose slightly to USD 1547 from USD 1527. Overall insurance penetration in advanced markets continued to decline. Non-life penetration remained unchanged, but life continued its decline from a peak of 5.7% in 2000 to 4.7% in 2013 On the other hand, average per capita spending on insurance in **emerging markets** rose to USD 129 in 2013 from USD 121 in 2012. Of the 2013 amount, USD 67 went to life insurance and USD 62 to non-life, compared with USD 64 and USD 57, respectively, the previous year. Insurance penetration increased but below the

rounding of one digit, leaving the headline value unchanged at 2.7% in 2013



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).



25.6 Origin of Insurance: Insurance, in its most basic form, is sharing of risk. It initially started as an informal exercise amongst traders in Europe. Trade in those days were being carried out by ships and the traders knew that there were definitely going to be losses due to pirates or bad weather and sometimes Ice-bergs. But what these traders were not sure of were as to which ship would face the disaster. However, the trader whose ship faced a disaster was left in penury. This led to an informal association of sorts, where the Traders contributed some money into a fund, which was used to compensate the loss of the individual trader.

25.7 Genesis & Development of Insurance in India- Acts & Regulations : Insurance has a deep-rooted history in India too, finding mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

25.8 The year 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. The year 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

25.9 In 1914, the Government of India started publishing returns of Insurance Companies in India. **The Indian Life Assurance Companies Act, 1912** was the first statutory measure to regulate life business. In 1928, the **Indian Insurance Companies Act** was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

25.10 **The Insurance Amendment Act of 1950** abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

25.11 An Ordinance was issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign

insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

25.12 The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business. The year 1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

25.13 In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then. In 1972 with the passing of the **General Insurance Business (Nationalisation) Act**, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973.

25.14 This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a **committee under the chairmanship of R.N. Malhotra**, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

25.15 Following 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. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer

satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

25.16 The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

25.17 In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

25.18 Today there are 24 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life insurance companies operating in the country.

25.19 The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

Appraisal of Indian Insurance Sector :

25.20 **Registered Insurers in India:** At end-September 2013, there were fifty two insurance companies operating in India; of which **twenty four** are in the **life insurance** business and **twenty Seven** are in **non life insurance** business. In addition, **GIC is the sole national re-insurer**. Of the 52 companies presently in operations, eight are in the public sector: two specialized insurers, namely ECGC and AIC, one in life insurance namely LIC, four in non life insurance and one in re-insurance(GIC). The remaining 44 companies are in the private sector.

Life Insurance – Premium :

25.21 Life insurance industry recorded a premium income of Rs 2, 87,202 Cr during 2012-13 as against Rs 2,87,072 Cr in the previous year registering a growth of 0.05 % . While private sector insurers posted 6.87 % decline in the premium income , LIC recorded 2.92 % growth .While renewal premium accounted for 62.62 % of total

premium received by the life insurers, first year premium contributed the remaining 37.38 % . During 2012-13 growth in renewal premium was 3.88 % . First year premium registered a decline of 5.78 % compared to decline of 9.85 % during 2011-12.

Premium Underwritten : Life Insurers			Market Share (%) : Life Insurers		
(₹ crore)					
Insurer	2011-12	2012-13	Insurer	2011-12	2012-13
Regular Premium [1]			Regular Premium		
LIC	40194.54 (10.83)	30313.52 (-24.58)	LIC	64.58	58.08
Private Sector	22040.78 (-20.37)	21877.15 (-0.74)	Private Sector	35.42	41.92
Total	62235.32 (-2.67)	52190.67 (-16.14)	Total	100.00	100.00
Single Premium [2]			Single Premium		
LIC	41667.71 (-17.89)	46297.98 (11.11)	LIC	80.58	83.92
Private Sector	10039.14 (-14.24)	8872.43 (-11.62)	Private Sector	19.42	16.08
Total	51706.85 (-17.21)	55170.41 (6.70)	Total	100.00	100.00
First Year Premium [3=1+2]			First Year Premium		
LIC	81862.25 (-5.92)	76611.50 (-6.41)	LIC	71.85	71.36
Private Sector	32079.92 (-18.55)	30749.58 (-4.15)	Private Sector	28.15	28.64
Total	113942.17 (-9.85)	107361.08 (-5.78)	Total	100.00	100.00
Renewal Premium [4]			Renewal Premium		
LIC	121027.03 (3.92)	132192.08 (9.23)	LIC	69.91	73.50
Private Sector	52102.91 (6.81)	47649.33 (-8.55)	Private Sector	30.09	26.50
Total	173129.94 (4.77)	179841.41 (3.88)	Total	100.00	100.00
Total Premium [5=3+4=1+2+4]			Total Premium		
LIC	202889.28 (-0.29)	208803.58 (2.92)	LIC	70.68	72.70
Private Sector	84182.83 (-4.52)	78398.91 (-6.87)	Private Sector	29.32	27.30
Total	287072.11 (-1.57)	287202.49 (0.05)	Total	100.00	100.00
			NEW POLICIES ISSUED : LIFE INSURERS		
			(In lakh)		
Insurer	2011-12	2012-13	Insurer	2011-12	2012-13
LIC	357.51 (-3.47)	367.82 (2.88)	LIC	357.51	367.82
Private Sector	84.42 (-24.04)	74.05 (-12.28)	Private Sector	84.42	74.05
Total	441.93 (-8.22)	441.87 (-0.01)	Total	441.93 (-8.22)	441.87 (-0.01)

Figures in paranthesis indicate growth in % over previous year .

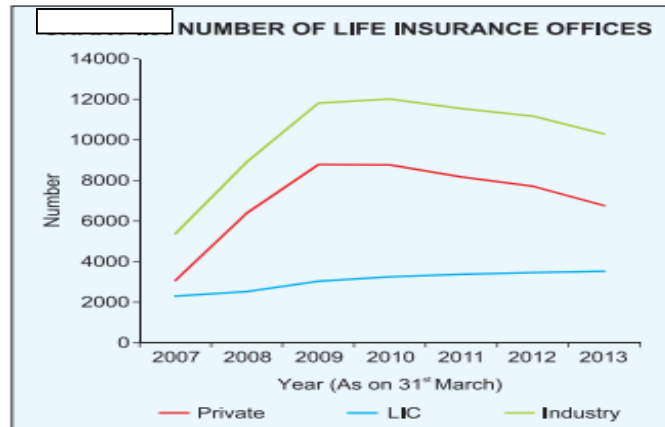
Postal Life Insurance & Rural Postal Life Insurance:

25.22 Postal Life Insurance & Rural Postal Life Insurance recorded 17.44 and 15.09 % growth in premium during 2013-14 compared to previous year.

	Postal Life Insurance(PLI)			Rural Postal Life Insurance(RPLI)		
	Premium Income	Increase over previous year	% growth over Previous year	Premium Income	Increase over previous year	% growth over Previous year
2010-11	3003.33	590.58	24.47	1111.48	-245.83	-18.11
2011-12	3681.03	677.70	22.56	1558.94	447.46	40.26
2012-13	4557.29	876.26	23.80	1703.16	144.22	9.25
2013-14	5352.01	794.72	17.44	1960.25	257.09	15.09

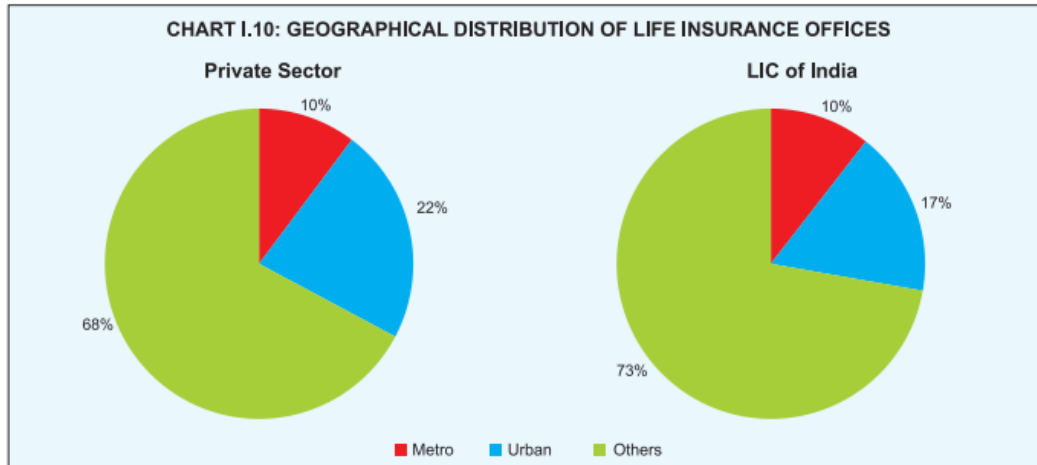
Expansion & Distribution of Life Insurance Offices:

25.23 During 2012-13, decreasing trend in the number of life insurance offices in India continued as in the previous year. Private insurers closed 1,097 offices and opened 144 new offices during 2012-13, leading to net reduction of 953 offices. LIC established 71 new offices and closed none.



Insurer	2007	2008	2009	2010	2011	2012	2013
Private	3072	6391	8785	8768	8175	7712	6759
LIC	2301	2522	3030	3250	3371	3455	3526
Industry	5373	8913	11815	12018	11546	11167	10285

* Offices opened after seeking approval of the Authority



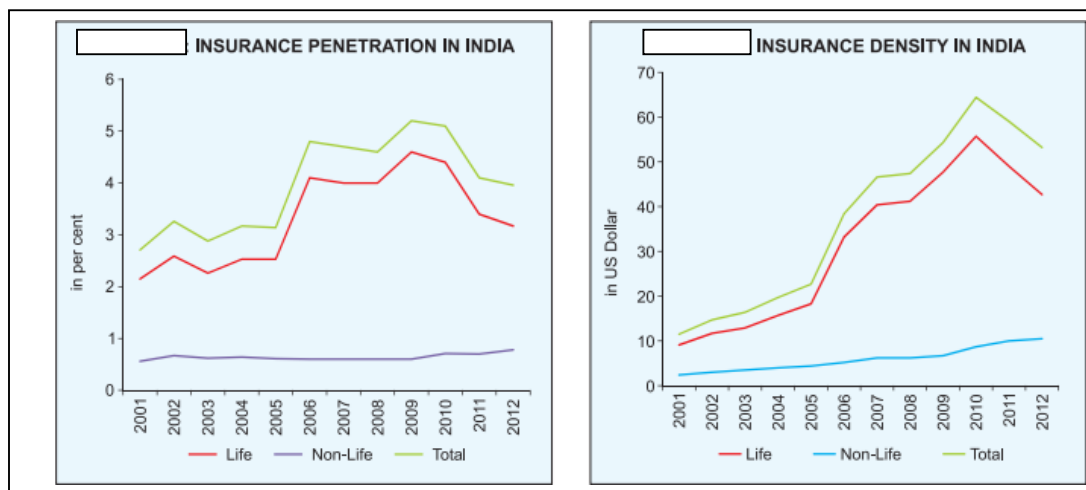
Non life Insurance Premiums:

25.24 India's non-life insurance industry is in a nascent stage. Insurance penetration is very low, except for compulsory third-party motor insurance. However, privately held insurers are increasingly looking to penetrate health insurance.

25.25 The non-life insurers had underwritten total premium of Rs 62,973 Cr in India during 2012-13 as against Rs 52,876 Cr in 2011-12, registering a growth of 19.10 % as against an increase of 24.19 % recorded in the previous year. During the period 2012-13, private non

life insurers registered a growth of 25.25 % whereas public sector insurers exhibited a growth of 14.6 %.

25.26 Insurance Penetration & Density: The insurance density of life insurance business services has gone up from USD 9.1 in 2001 to reach the peak at USD55.7 in 2010. During 2012-13 the level of life insurance density was only USD 42.7 Similarly the life insurance penetration surged from 2.15 % in 2001 to 4.6% in 2009. Since then it has exhibited a declining trend reaching 3.17 % in 2012. Over the last ten years, the penetration of non life insurance sector in the country remained steady in the range of 0.5-0.7 percent . However its density has gone up from USD 2.4 in 2001 to USD 10.5 in 2012.



25.27 Sources of Insurance Statistics in India: Insurance statistics can be grouped under the following categories:

- ✚ Life Insurance Statistics
- ✚ Non-life (General) Insurance Statistics
- ✚ Reinsurance Statistics
- ✚ Pension and Super-annulations Statistics
- ✚ Health Insurance Statistics
- ✚ Crop Insurance Statistics
- ✚ Other Insurance Statistics like ESI, Postal Insurance, Army Insurance, and the like.

The data presently collected by the Life Insurance Company (LIC) and the General Insurance Company (GIC) largely meet their own requirements to assist management decisions, design strategy, formulate business plans, examine the market sizes, and changes in market environment, etc. The annual reports of LIC and GIC provide statistical information on various aspects of insurance statistics in their organisations. The General Insurance companies also supply statistical

information to the Tariff Advisory Committee (TAC) in prescribed proforma to perform its function of scientific rating and pricing for general insurance products. The insurance companies also supply statistical information on assets and liabilities, sources of funds and deployment of funds and other aspects to RBI (quarterly/annual) as a part of the survey of Financial Sector. The statistical system prevalent in these two agencies is given below:

25.28 The **Life Insurance Corporation (LIC)** collects information on various aspects of its operations, such as:

- ✚ Individual insurance business information-new business and sum assured, premium income, number of policies, rural and urban business, social sector schemes, etc.
- ✚ Group and pension fund business – number of schemes, lives covered, premium income, etc.
- ✚ Product-related information-Sales under various policies, number of lives investment, State-wise investment, etc.
- ✚ Investment information-total investment, sectoral investment, instrument-wise investment. State- wise investment, etc.
- ✚ Claims-related information-total claims settled, claims ratios, etc.
- ✚ Cost and expenses information-total cost, management expenses, etc.
- ✚ International operation-business procurement, investment, etc.

25.29 The **General Insurance Company (GIC)** collects information on the following aspects :

- ✚ Balance sheet in respect of every class of business.
- ✚ Major claims, details of investments-category-wise and assets owned, claims settlement position with settlement ratio, premium details, class: business-wise and region-wise, documents issued with documentation percentage, investments and investment income.
- ✚ Investments, short-term loan placement, call money transactions, sanctions and disbursements.
- ✚ Rural traditional covers and rural non-traditional business, cattle, poultry, Janta Personal Accident and other covers.
- ✚ Data on foreign operations, Motor Accident Claims Tribunal (MACT) settlements, grievance redressal and details of commission and management expenses.

25.30 The **Insurance Regulatory Development Authority (IRDA)**, on the advice of the Insurance Advisory

Committee, has framed fifteen regulations so far under the **IRDA Act**, which are to be followed by all insurers. It has also prescribed a number of returns to monitor various provisions of these regulations and the insurers in the life insurance business and general insurance business are required to statutorily submit these returns to the IRDA as per the periodicity and time frame specified. Most of the regulations, which require insurers to submit these returns to the IRDA, have been framed in the year 2000 only. The IRDA will be receiving these returns from the insurance companies as per the periodicity and time frame specified by it.

IRDA brings out Annual Report which provides an appraisal of Indian insurance market covering both life and non life insurance - health insurance, crop insurance etc. It also brings out Committee Reports & Journals which discuss various features of insurance sector. Monthly information on both life and non life insurance business is also available on the website of IRDA .

25.31 Insurance Information Bureau (IIB), an advisory body formed by IRDA, collects transaction level data from insurers. IIB acts as a single point of official reference for the entire industry data and ensures data is available to various market players, researchers, policyholders and common public for real time decision making. IIB publishes periodical reports on Motor, Health and other lines of business. From the financial year 2010-11 IIB has started collecting transactional data (Motor, Health, Fire, Marine and Engineering) from all insurers in online mode. Online data is being collected on monthly basis through the website **www.iib.gov.in**. Insurers are able to view aggregate reports related to their company as well as of the industry, up to the level of data submission.

25.32 Reserve Bank of India , as a part of the survey of financial sector, maintains statistical information on assets and liabilities, sources of funds and deployment of funds etc in respect of insurance companies.

25.33 Directorate of Postal Life Insurance, Department of Posts maintains information pertaining to Postal Life Insurance & Rural Postal Life Insurance

References :

- Annual Report IRDA, 2012-13 & Website of IRDA
- World Insurance in 2013, Steering towards recovery, Sigma No. 3/2014, Swiss Re