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Insurance Penetration And Density In India

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Abstract

Insurance occupies an important place in the complex modern world since risk, which can be insured, has increased enormously in every walk of life. This has led to growth in the insurance business and evolution of various types of insurance covers. The insurance sector acts as a mobiliser of savings and a financial intermediary and is also a promoter of investment activities. It can play a significant role in the economic development of a country, while economic development itself can facilitate the growth of the insurance sector. After the deregulation of insurance business in India there is a significant change in the industry both in the products as well as the services offered to the customers. The present paper is an attempt to analyze the insurance penetration and density in India.

Keywords: Market Share of Life Insurers, Insurance Penetration in India Insurance Penetration in India**.**

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Introduction

India's insurable population is expected to grow to 750 million and life expectancy to 74 years by 2020. As a result, life insurance, which is the second most preferred financial instrument in India, would contribute to an estimated 35 per cent of total savings in the next seven years, compared with a meager 26 per cent in 2010. According to the Financial Stability Forum, insurance services are categorized into three major categories: life insurance, non-life insurance and reinsurance. The life insurance sector helps in providing risk cover, investment and tax planning for individuals; while the non-life insurance industry provides a risk cover for assets. Developing countries often find themselves in the position of being buyers of reinsurance. The potential and performance of the insurance sector is universally assessed with reference to two parameters—insurance penetration and density. These

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two are often used to determine the level of development of the insurance sector in a country.

Review of literature

While earlier studies on life insurance sector mainly focused upon LIC, it was only after reforms in this sector that certain studies covering private players have taken place. Among early studies, Arora (2002) highlighted that LIC was likely to face tough competition from private insurers having large established network and their trained intermediaries throughout India. Verma (2003) analyzed the various type of products offered by public sector giant and the new global players in the private sector. Kumar and Taneja (2004) highlighted the opportunities and challenges before the insurance industry in India due to liberalization, globalization and privatization. Bhattacharya (2005) advocated that bancassurance provided the best opportunities to tap the large potential in rural and semi urban areas as banks have a strong network of more than 40000 branches in these areas. He suggested that the insurers should focus on Single Premium policies, Unit Linked Insurance, Pension Market and Health Insurance. Kumar (2005) highlighted that private insurance players introduced a wider range of insurance products and set up brand promotion as part of their new strategy. These new covers had flexibility and added benefits to suit the needs of customers who were unsatisfied with the traditional and rigid plans. Kulshrestha and Kulshrestha (2006) highlighted that demand for life insurance in rural India was expanding at the annual rate of 18 per cent as compared to 3.9 per cent in urban areas which provided good opportunity for life insurers to perform.

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OBJECTIVES OF THE STUDY

The study is done with a view to know the market share of different sectors in insurance business in India and to study the trend of insurance penetration and density in India

RESEARCH METHODOLOGY

The study is based upon secondary data which has been collected from annual reports of IRDA, IRDA journal. Besides, a few websites have also been consulted. The data used in the paper covers the period from 2009-2010 to 2013-14.

MARKET SHARE OF LIFE INSURERS

SECTOR	2009 -2010	2010 - 2011	2011 - 2012	2012 -13	2013-14
LIC	70.10	69.77	70.68	72.70	75.39
PRIVATE SECTOR	29.90	30.23	29.32	27.30	24.61
TOTAL	100	100	100	100	100

SOURCE: COMPLIED DATA FROM IRDA ANNUAL REPORTS

On the basis of total premium income, the market share of LIC increased from 70.10 per cent in 2009-2010 to 75.39 per cent in 2013-14. Accordingly, the market share of private insurers has declined from 29.90 per cent in 2009-2010 to 24.61 per cent in 2013-14.

INSURANCE PENETRATION AND DENSITY IN INDIA

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)

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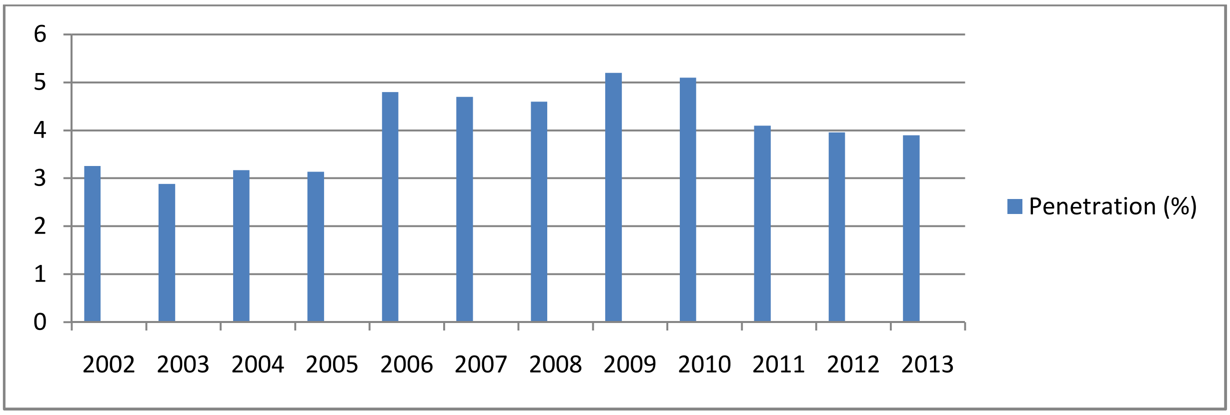
INSURANCE PENETRATION IN INDIA

Insurance penetration measures the growth of life insurance premiums vis-a-vis the growth of the gross domestic product in the economy, and reflects the level of development of the insurance sector in a country. The total insurance premiums in a country measured as a percentage of the country's GDP define its insurance penetration.

YEAR	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Penetration (%)	3.26	2.88	3.17	3.14	4.80	4.70	4.60	5.20	5.10	4.10	3.96	3.90

SOURCE: IRDA REPORT 2013-14



Insurance penetration of life sector had gone up from 2.15 per cent in 2001 to 4.60 per cent in 2009. From the above statistics it is evident that the entry of private sector has boosted the growth of the sector.

INSURANCE DENSITY IN INDIA

Another measure of insurance development is per capita spending on insurance, known as insurance density; it is calculated as the ratio of total premium to the population (per capita premium). By this measure, India is among the lowest-spending

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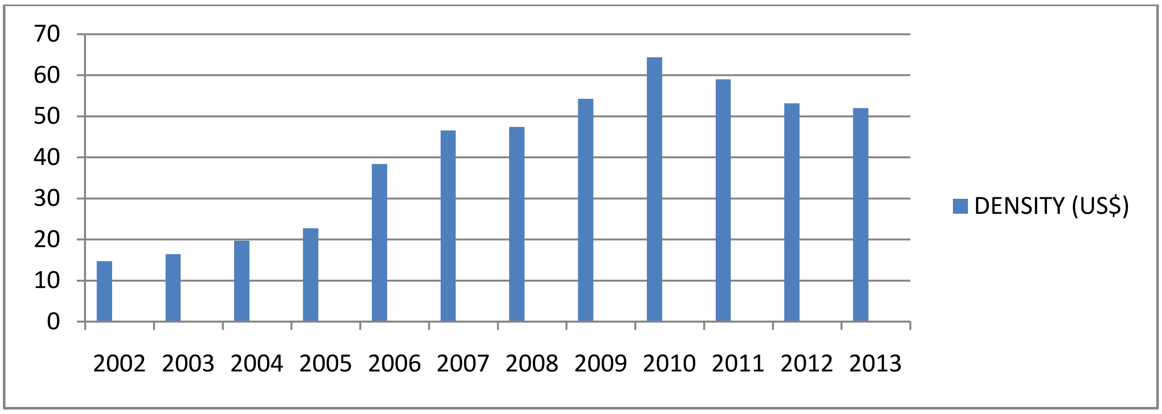
nations in Asia in respect of purchasing insurance. One factor that has been slowing down insurance density is India’s relatively high population growth rate.

YEAR	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
DENSITY (USD)	14.7	16.4	19.7	22.7	38.4	46.6	47.4	54.3	64.4	59	53.2	52

SOURCE: IRDA REPORT 2013-14



After liberalization in the Indian economy, total insurance density has experienced an upward trend, increasing from US$ 16.4 in 2002 to US$ 52 in 2013. Life insurance density surged from 2002 to 2010, but fell slightly to US$ 52 in 2013.

Conclusion

India's insurable population is anticipated to touch 75 crore in 2020, with life expectancy reaching 74 years. The future looks interesting for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.

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