MARKET SIZE AND GROWTH OF INSURANCE INDUSTRY - AN EMPIRICAL STUDY ON PENETRATION AND DENSITY OF LIFE AND NON-LIFE INSURANCE IN INDIA

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Abstract

Insurance is a 500 Billion rupees business in India, and together with banking services adds about 7 percent to India's GDP. India has its investments in Life Insurance policies which amount to about 85 of the total GDP of the Nation. Yet there is a vast difference between insured population as compared to the Insurable population, about three fourth of such population is not insured. There are prospects of growth of Insurance Industry in India, as in comparison to other Countries, due to rapid growth in the economy, ageing population and growing need for social security in the old age. However, greater spread and deepening of insurance in India would need reforms which include revitalizing and restructuring of the public sector companies and opening up the sector to private players. This study focuses on analyzing the penetration and density patterns of life insurance in comparison with non-life Insurance through the use of ANOVA technique. The findings of the study will enable in understanding the market share and size of Indian industry and prospects of growth could be more viably recognized.

Keywords: *: Penetration, Density, Per Capita Income, Premium Underwritten, Population.*

INTRODUCTION

The Indian Insurance Industry is broadly classified into two sectors, Public sector and Private sector. LIC (Life Insurance Corporation of India) is the sole Public sector Life insurer and all others are Private sector Players. GIC (General Insurance Corporation of India) is the sole re insurer in the general Insurance business. There are various other beneficiaries of Indian Insurance markets such as Underwriters, Commission agents, Third Party Insurance Companies etc. Market size refers to the growing trends in the insurance industry including both life and nonlife insurances. This sector is

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facing the challenges from the regulatory interruptions and stagnant sales. Indian insurance Industry is growing but not at very accelerated rate. The analysis of the gross premiums underwritten for life insurance and nonlife insurance will depict the density and penetration trends in the growth of insurance industry during the last 10 financial years. This will enable in improving the insurance sector in the coming future.

REVIEW OF LITERATURE

Jaspreet Kaur 2015, studied the market share of different sectors in the insurance industry, their density and penetration levels were analyzed, it was concluded that there is scope of growth of Insurance Industry in its near future if proper measures are taken to create awareness on insurance.

Dr Garima saxena and Priyanka 2017, emphasized on the penetration levels of Life insurance Industry in India, the study revealed that neither the state nor private insurance companies have quite stepped up to fill this gap. The economic survey reveals that there is need for greater Insurance penetration and density. It also concludes that the Indian Insurance Industry is growing at a slower pace as compared to its Asian peers.

Substant Rao 2008, in his paper "Getting Ready for the future", felt that planning for the future in a competitive insurance industry was never more important than now. Public sector insurers that had huge advantages have fettered away most of them because of unclear goals. In this article, he compared two public sector insurers. It also dwells on what the customers and the market expects from them in the future. According to him, low premiums, wide coverage and improved services are the need of the hour for achieving paper progress of insurance industry.

RESEARCH GAP

There is no study which compares the Life insurance sector and Nonlife insurance sector on basis of its penetration and density level. There is a need for such comparison to improve the sectors which are lagging behind in the race of the Insurance Industry.

STATEMENT OF PROBLEM

India is one of the most populous countries in the world but the Insurance penetration and density levels are not in par with many other less populated countries in the world. There is a need to analyze if there is a difference in the Life Insurance and Nonlife Insurance density and penetration levels.

OBJECTIVES OF THE STUDY

1. To study the penetration and density levels of Life insurance and Nonlife Insurance
2. To suggest some measures to increase penetration and density levels so as to increase investments and social security among the Indian population.

HYPOTHESIS

H01: There is significant difference between penetration levels of life insurance sector and nonlife insurance sector in India.

H02: There is significant difference between density levels of life insurance sector and nonlife insurance sector in India.

RESEARCH METHODOLOGY

The data is extracted from secondary sources such as IRDA Publications, Articles and Journals.

LIMITATIONS OF THE STUDY

The study is restricted for last 10 years and only Indian Insurance Industry statistics are used for analysis.

ANALYSIS AND INTERPRETATION

Penetration and Density

Insurance penetration and insurance density are the two parameters that are universally used to assess the performance and potential of insurance sector; also these two elements are used to gauge the level of development of the insurance sector in a country.

Insurance penetration = Total Premium/ Total Gross Domestic Premium

Insurance penetration can be used to measure the development of the country in terms of mobilization of funds through the insurance sector. It analyses the contribution of insurance sector made to the economic growth and development of the country.

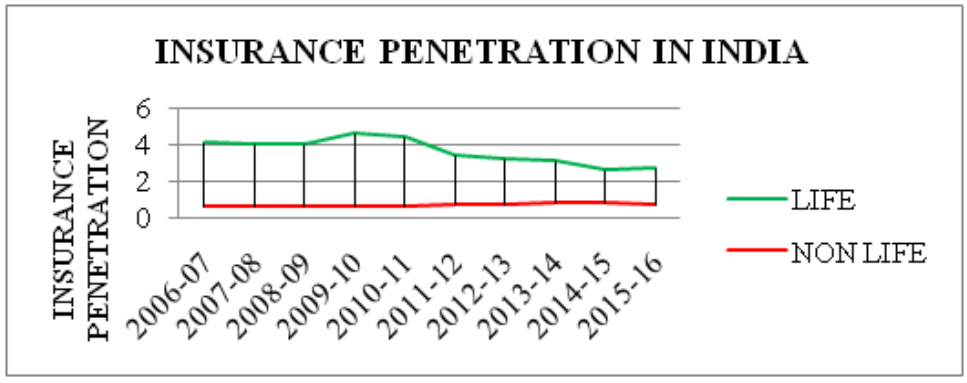
Insurance Density = Total Premium / Total Population

Insurance density refers to the ratio of Insurance premiums purchased by the population of the country. It synonymously means the per capita premium of the country which indicates the standard of living of the population and their capacity and willingness to buy insurance.

Table 1: Insurance Penetration in India (In percentages)

INSURANCE PENETRATION (IN PERCENTAGE)				
	LIFE INSURANCE		NON LIFE INSURANCE	
	PENETRATION	**GROWTH RATE**	**PENETRATION**	**GROWTH RATE**
2006-07	4.1	-	0.61	-
2007-08	4	-2%	0.6	-2%
2008-09	4	0%	0.6	0%
2009-10	4.6	15%	0.6	0%
2010-11	4.4	-4%	0.6	0%
2011-12	3.4	-23%	0.71	18%
2012-13	3.17	-7%	0.7	-1%
2013-14	3.1	-2%	0.78	11%
2014-15	2.6	-16%	0.8	3%
2015-16	2.72	5%	0.7	-13%
CAGR		**-4%**		**2%**

Graph 1: Insurance penetration in India (In percentages)



Insurance penetration indicates the development of the country in terms its insurance sector, the contribution of insurance sector to the Gross domestic product of the country. The study reveals that the penetration level of the life insurance sector has been growing till the year 2009-2010, but the Indian economy started growing at a faster pace in comparison to the growth of life insurance premiums and also the effect

of inflation slipped the penetration level by 23% in the year 2010-2011 and thereafter kept declining up till it grew by 5% in the year 2015-2016, through increased efforts and innovation by the insurance industry. The nonlife insurance sector has been growing at a constant level, the graph line showing more or less a straight line. The nonlife insurance sector did not grow in the years 2008-2011 since the people were not aware and interested in buying nonlife insurances, but the growing business needs is making insurance a necessity leading to increased growth in the recent years by 16% in 2012-2013, the industry showed a CAGR of 2% during the last 10 years which is sign of nonperformance of the industry.

Anova: Single Factor						
SUMMARY						
Groups	*Count*	*Sum*	*Average*	*Variance*		
LIFE	10	36.09	3.609	0.495388		
NON LIFE	10	6.7	0.67	0.006178		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	43.18861	1	43.18861	172.2152	1.18E-10	4.413873
Within Groups	4.51409	18	0.250783			
Total	47.7027	19				

H0 Null hypothesis: There is no significant difference between penetration levels of life insurance sector and non-life insurance sector in India.

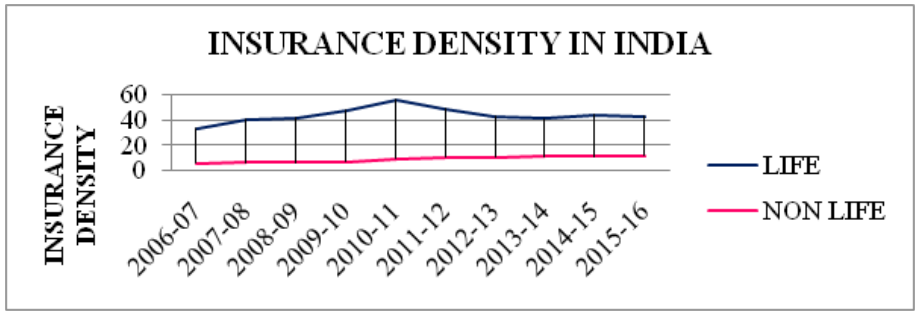
Since the p-value is < 0.05 (level of significance) and F value 172.21 > F Crit value 4.413

Null Hypothesis is REJECTED - which means there is a significant difference between penetration of Life insurance and Non-Life Insurance sector.

Table 2: Insurance density in India (In percentages)

INSURANCE DENSITY(IN PERCENTAGE)				
	LIFE INSURANCE		**NON LIFE INSURANCE**	
	DENSITY (PER CAPITA PREMIUM)	GROWTH RATE	DENSITY (PER CAPITA PREMIUM)	GROWTH RATE
2006-07	33.2	-	5.2	-
2007-08	40.4	22%	6.2	19%
2008-09	41.2	2%	6.2	0%
2009-10	47.7	16%	6.7	8%
2010-11	55.7	17%	8.7	30%
2011-12	49	-12%	10	15%
2012-13	42.7	-13%	10.5	5%
2013-14	41	-4%	11	5%
2014-15	44	7%	11	0%
2015-16	43.2	-2%	11.5	5%
CAGR		**3%**		**9%**

Graph 2: Insurance density in India (In percentages)



Insurance density is a parameter which ascertains the per capita premium of the country, the standard of living of the people and their willingness to safeguard against the unexpected contingencies. The year 2010-2011recorded the highest density of 55.7 in the Life insurance sector and there by the density slipped by 12% up till it gained momentum in the year 2013-2014 and has been increasing thereafter. The study reveals that the penetration level of the life insurance sector has been growing till the year 2009-2010, but the Indian economy started growing at a faster pace in comparison to the growth of life insurance premiums.

Anova: Single Factor						
SUMMARY						
Groups	*Count*	*Sum*	*Average*	*Variance*		
LIFE INSURANCE	10	438.1	43.81	35.99878		
NON LIFE INSURANCE	10	87	8.7	5.788889		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	6163.5605	1	6163.561	294.9942	1.31E-12	4.413873
Within Groups	376.089	18	20.89383			
Total	6539.6495	19				

H0 Null hypothesis: There is no significant difference between density levels of life insurance sector and nonlife insurance sector in India

Since the p-value is < 0.05 (level of significance) and F value 294.992 > F Crit value 4.413873

Null Hypothesis is REJECTED-which means there is a significant difference between density of Life insurance and Non-Life Insurance sector.

The data is rounded off to decimals from 2006-16

Source: Swiss Re, Various Issues from 2006-2016 and IRDA TechSci Research

FINDINGS AND SUGGESTIONS

- The study reveals that the penetration level of the life insurance sector has been growing till the year 2009-2010, but the Indian economy started growing at a faster pace in comparison to the growth of life insurance premiums.
- The nonlife insurance sector is showing a constant increase throughout the last 10 years, the growth rates are not very high but are always in an increasing trend recording a CAGR of 9%. There is a need to accelerate the density of the nonlife insurance sector in the near future.
- With privatization, liberalization and globalization the competition augmented leading to product innovation, better distribution channels, coupled with targeted publicity and promotional campaigns by the insurance companies.
- The Indian Insurance Industry can contribute to the Economic growth and development of the country. The mobilization of the savings

not only creates investments but also acts as a secondary source for elimination of poverty and develops the weaker section of the society. Therefore there is need to encourage and create awareness on insurance among the public.

- Even tough for years the Indian society has seen very weak social security of Indian population, the present Prime Minister has launched three new social security schemes. These schemes (2 insurance products & 1 pension scheme) is aimed at the unorganized sector and economically weaker sections of the society, though, benefits of the scheme can be availed by any strata of the society.

CONCLUSION

Insurance industry is the most trending industry in India as it acts as both an investment option as well as a social security tool. In a Country like India where the population is growing faster than the industry growth, the insured population is very less compared to the insurable population. Also the Life insurance sector is more prominent compared to nonlife insurance. The study reveals that there is a significant difference between the penetration and density levels of Life and Nonlife insurance in India. The government and all the insurance companies are working towards bridging this gap; many governmental schemes are introduced to increase the penetration levels in India. Awareness is being spread on the importance of safety and investments. The insurance industry is expected to grow in two folds by 2020 if all measures are implemented at all levels in India.

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