

Twenty years of Liberalization of Indian General Insurance Industry-Where We Stand?

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India's economic growth over the past two decades has been one of the most substantial progresses in the world economy. This growth has its origins in the introduction of economic reforms in the early 1990s. Insurance industry also stimulated into a growth path due to this liberalization process. Indian Government through IRDA (Insurance Regulatory Development Authority) created history in 2000, by bringing insurance business to private companies which had been ended 44 years back. Currently there were 34 players in the private sectors of general insurance, in addition of 4 general insurance companies and 2 specialized insurance companies in the public sector. Even though LPG have opened new prospects in the insurance industry, for the public sector companies it is a question of renovating the business. The rapid growth of insurance companies in post nationalization period brought number of problems to the existing public sector insurance companies. Even though the public sector general insurance companies made both quantitative and qualitative improvement in the post-liberalisation period the private companies have proved that they are more innovative. And due to this the public sector insurance companies have been compelled to review their mechanism in order to compete with private sector companies. Reaching the almost 20 years of liberalisation of this sector the present stage needs to be reviewed in order to assess insurance sector growth. This paper attempts to evaluate a comparative study of the performance of the public and private sector general insurance companies in the post-liberalisation era in terms of insurance penetration and density, GDP, market share and also analyse which profitability indicator needs to focus by both the public and private sector general insurance companies in order to make profit and sustain in the industry.

This is purely a technical paper and an attempt made to examine the comparative performance of public and private sector general insurance companies in India in the post reform period. For the study secondary data is used and it collected from IRDA annual reports.

This paper analyses the performance of general insurance industry in terms of insurance penetration, density, gross direct premium, market share and profitability.

1.1. International Comparison of Insurance Penetration 2001-2016(in percent)

This part of the paper analyses the insurance penetration and density

Insurance penetration and density mirrors the development of insurance sector in a country. 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).

**Table 1.1
International Comparison of Insurance Penetration 2001-2016(in percent)**

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
United States	4.57	4.98	5.23	5.14	5.01	4.8	4.7	4.6	4.5	4.5	4.5	4.52	4.3	4.3	4.2	4.29	4.28
United Kingdom	3.45	4.56	4.75	3.68	3.55	3.4	3	2.9	3	2.9	3.1	2.84	2.8	2.6	2.4	2.58	2.36
Switzerland	4.76	5.22	5.02	5.02	4.99	4.9	4.6	4.4	4.5	4.4	4.5	4.33	4.4	4.1	4.1	4.12	4.12
France	2.85	2.97	3.16	3.14	3.13	3.1	3	3	3.1	3.1	3.3	3.28	3.2	3.1	3.1	3.17	3.18
Germany	3.59	3.7	3.82	3.86	3.73	3.6	3.6	3.5	3.7	3.7	3.6	3.62	3.6	3.4	3.4	3.33	3.41
South Korea	3.38	3.38	2.86	2.77	2.98	3.2	3.6	3.7	3.9	4.2	4.6	5.25	4.4	4.1	4.1	4.72	5*
Japan	2.22	2.22	2.2	2.25	2.22	2.2	2.1	2.2	2.1	2.1	2.2	2.27	2.3	2.4	2.6	2.37	2.34*
Brazil	1.78	1.74	1.68	1.62	1.68	1.6	1.6	1.6	1.5	1.5	1.5	1.66	1.8	1.9	1.8	1.76	1.77
Russia	1.51	1.81	2.13	2.22	2.15	2.3	2.4	2.3	2.5	2.3	2.3	1.24	1.2	1.2	1.2	1.13	1.04
Taiwan	2.99	2.81	3.03	3.07	2.93	2.9	2.8	2.9	3	3	3.1	3.16	3.1	3.3	3.2	3.34	3.42
Hong Kong	1.21	1.45	1.5	1.39	1.29	1.2	1.2	1.3	1.4	1.4	1.4	1.42	1.5	1.4	1.5	1.41	3.36
Malaysia	1.8	1.97	2.06	1.88	1.82	1.7	1.5	1.5	1.6	1.6	1.8	1.72	1.7	1.7	1.7	1.62	1.44
Singapore	1.18	1.43	1.5	1.48	1.48	1.1	1.5	1.6	1.7	1.6	1.5	1.6	1.6	1.6	1.7	1.67	1.58
Thailand	1.08	1.15	1.23	1.58	1.62	1.6	1.6	1.5	1.6	1.7	1.7	2.07	1.7	2.2	1.8	1.7	1.69
India	0.56	0.67	0.62	0.64	0.61	0.6	0.6	0.6	0.6	0.71	0.70	0.78	0.8	0.7	0.70	0.77	0.93*
PR China	0.86	0.95	1.03	1.05	0.92	1	1.1	1	1.1	1.3	1.2	1.26	1.4	1.5	1.6	1.81	1.89
Sri Lanka	0.67	0.75	0.75	0.77	0.84	0.9	0.9	0.9	0.9	0.9	0.6	0.66	0.7	0.7	0.7	0.6	0.62
Pakistan	0.38	0.38	0.38	0.43	0.4	0.5	0.4	0.4	0.4	0.3	0.3	0.28	0.3	0.3	0.3	0.26	0.26
South Africa	2.78	2.86	2.92	2.95	3.03	3	2.8	2.9	2.9	2.8	2.7	2.6	2.7	2.7	2.7	2.74	2.74
Australia	3.45	3.46	3.57	3.85	3.09	3.2	3	2.9	3	2.8	3	2.76	2.1	2.2	2.2	3.53	3.48
World	3.15	3.38	3.47	3.44	3.18	3	3.1	2.9	3	2.9	2.8	2.81	2.8	2.7	2.8	2.81	2.8

Source: Compiled from various IRDA Annual Reports, * Data of financial year 2016-17 & 2017-18.

1.2. International Comparison of Insurance Density 2001-2016(in percent)

The penetration of general insurance sector in the country remains near-constant for the 9 years (2001-2010) at around 0.60 per cent but after that it displayed an improvement of 0.70 % (2010-2016) (Table 1.1.) and increased to 0.90 per cent. However, there is a bordering increase in density, which has increased from USD 2.4 in 2001 to USD 18 in 2017 (Table 2.2). The growth in the insurance industry has been more rapid than the overall growth in the economy.

**Table 1.2
International Comparison of Insurance Density 2001-2016(in percent)**

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
United States	1664	1799	1980	2063	2122	2134	2164	2177	2107	2127	2130	2239	2296	2360	2377	2449	2542
United Kingdom	825.9	1200	1441	1318	1312	1327.1	1383	1276	1051.2	1060.2	1188	1094.4	1087	1185	1067	1030.5	938
Switzerland	1627	1823	2229	2441.3	2480	2450.1	2582	2828	2852.1	2966.9	3591	3401.1	3490	3542	3292	3233	3289
France	630.6	714.7	930	1057.7	1094	1152.9	1219	1339	1289.4	1249	1403	1304.3	1345	1350	1129	1167.5	1224
Germany	809.9	891	1121	1265.3	1268	1300.7	1428	1573	1518.7	1501.6	1578	1505.3	1585	1617	1381	1397.1	1519
South Korea	296.7	337.9	369	412.5	495.5	591.2	727.3	621	709.7	885.1	1045	1207.3	1079	1149	1094	1312.3	1523
Japan	701.1	714.7	768	830.8	790.4	760.4	736	829	840.4	917.4	1031	1024.9	861	852	837	928.3	901
Brazil	53.2	45	46.8	55.2	72.1	88.4	106.9	129	123.8	157.7	189	188.7	197	200	154	150.8	174
Russia	32.6	43.5	64.3	89.6	116.5	146.9	203.3	268	276.4	290.4	295	170.3	180	161	154	150.8	113
Taiwan	327.6	354.1	383	414.4	446.4	450.3	462.3	500	494.8	539.3	614	652.5	682	701	102	722	803
Hong Kong	295.5	345.1	349	332.9	331.7	331.6	341.3	381	417.5	438.2	462	519.2	557	575	616	613.2	1557
Malaysia	68.8	79.3	87.2	89.2	95.3	103	110.6	120	115	138.3	175	184.3	176	186	157	153.9	147
Singapore	245.8	300.6	320	365.4	392	341.2	531.2	630	645.6	722.1	810	890.2	863	919	894	882.4	915
Thailand	19.8	23.1	27.6	41.3	44.4	50	58.9	64.9	62.7	77.5	88	109.7	96	125	104	101.4	112
India	2.4	3	3.5	4	4.4	5.2	6.2	6.2	6.7	8.7	10	10.5	11	11	12	13.2	18
PR China	7.8	9.5	11.2	12.9	15.8	19.4	25.5	33.7	40.6	52.9	64	76	91	109	128	147.2	159
Sri Lanka	5.4	6.1	7.2	7.9	9.4	12.8	14.7	19.3	17.7	20.6	18	18.2	21	23	25	24.5	25
Pakistan	1.5	1.7	1.8	2.2	2.8	3.6	3.9	4	3.6	2.9	4	3.4	3	4	4	3.9	4
South Africa	69.1	64.8	107	141	156.2	160.2	159.5	164	160.9	200.1	215	198.6	181	176	155	146.7	167
Australia	628	695.5	912	1186.3	1203	1191.9	1326	1349	1307.9	1603	2017	1934.7	1472	1354	1128	1836.6	1942
World	158.3	175.6	203	220	219	224.2	249.6	264	253.9	263	283	283.1	285	294	276	285.3	297

Source: Compiled from various IRDA Annual Reports

1.3 Gross Direct Premium of Public Sector General Insurance Companies 1991-2000(Within & Outside India)

The comparison of public and private sector general insurance companies has been made of gross direct premium and market share of all the four public sector general insurance companies during the pre-reform and post-reform period. The pre-reform period includes the years 1991 to 2000, and the post-reform period 2001 to 2017 (last official publication of data in 2017).

Table 1.3
Gross Direct Premium of Public Sector General Insurance Companies during 1991-2000(Within & Outside India)

Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
National Insurance	672.46	759.80	759.80	957.49	1207.22	1456.45	1636.54	1853.53	2042.11
New India Assurance	1148.23	1386.79	1616.52	1776.93	2132.03	2433.64	2688.57	3017.64	3306.53
Oriental Insurance	629.90	726.03	837.47	983.92	1325.6	1524.2	1709.5	1969.9	2166.5
United India Insurance	730.60	862.35	993.92	1128.55	1554.8	1798.3	1962.7	2260.8	2390.5
Total	2758.60	3229.83	3747.75	4317.78	6219.6	7212.6	7997.2	9101.8	9905.6

Source: Compiled from various IRDA Annual Reports

Table 1.4. Gross Direct Premium of Public Sector General Insurance Companies 2001-2017 (Within & Outside India) Rs.in crore

Insurer	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Public Sector	11917.6	13520.4	14284.7	14948.8	15976.4	17283.5	17813.7	19107.3	21838.9	26417.1	32263.5	37071.8	40980.1	45016.6	50644.2	63060.1	70569.78
Public Sector Growth	13.59	13.45	-5.65	-4.65	-6.87	-8.18	-3.07	-7.26	-14.3	20.96	22.13	-14.9	10.54	9.85	12.5	24.52	11.91%
Private Sector	467.65	1349.8	2257.83	3507.62	5362.66	8646.57	10991.9	12321.1	13977	17424.6	22315	27950.7	332010.3	35090	39694.1	53805	65419.82
Private Sector Growth	-6454	188.6	67.27	55.35	52.89	61.24	27.12	12.09	13.44	24.67	28.07	25.26	14.52	9.59	13.12	35.55	21.59%
Total	12385.2	14870.3	16542.5	18456.5	21339.1	25930	28805.6	31428.4	35815.9	43841.8	54578.5	65022.5	72990.4	80106.6	99332.9	130970	153437.68
Total Growth	17.97	20.06	11.25	11.57	15.62	21.51	11.09	-9.11	13.96	22.41	24.49	19.14	12.25	9.74	13.98	31.85	17.15

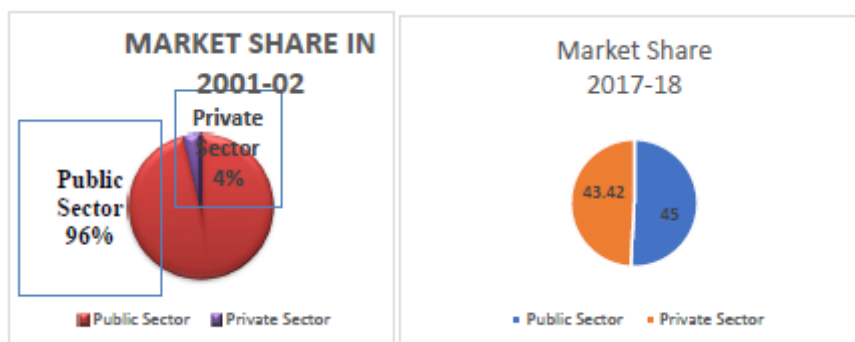
Figures in the bracket represent the growth over the previous year in per cent.

Source: Compiled from various IRDA Annual Reports

The public sector general insurance company’s growth rate in terms of GDP is higher in the pre-reform period than in the post-reform period. There is an increasing drift in gross direct premium income visible in the public sector general insurance companies after opening up of the sector. New India Assurance appeared as the largest public sector GIC during all the years of pre-reform period followed by United India Insurance, Oriental Insurance and National Insurance companies. (Table No.1.3.). The gross premium of the non-life insurance business within and outside India grew from Rs.12385.24 in 2001 to Rs. 153437.68 (Rs.in crore) in 2018. (Table No.1.4). The performance of private sector general insurance companies in terms of gross direct premium has been progressive than that of the public sector. The private players’ contribution to gross premium is increased from Rs. 467.65 crores to Rs. 65419.82.00 while that of public players is Rs. 11917.59 crores to Rs. 70569.78 during 2001 to 2018. Analysis of four public players in terms of gross direct premium shows that both in pre and post reform period, it is the New India that brings the team as a whole to high growth. The other three players are nowhere near its growth rate. This shows that there is an evident disparity among the public player’s contributions.

1.4. Market Share 2001-2017

**Figure 1.1.
Market Share 2001-2018**



Source: Compiled from various IRDA Annual Reports

The market share of all the public sector general insurance companies declined due to the entry of private companies in the field. (Figure No. 1.1.). In 2001-02, the market share of public sector was 96 per cent and private sector was only 4 per cent. In 2017-18, the market share of the public sector came down 45 per cent and that of private sector increased to 43.42 per cent. (Figure No 1.1.). It shows that around 50 per cent of the market share was captured by the private sector in terms of gross direct premium. This is the fact mentioned in the beginning of the paper that the public sector general insurance companies have experienced an enormous expansion of branches after liberalization, but this has not always been matched by a corresponding enhancement in the performance. Even after many initiatives taken by the public sector companies to compete with the private companies, they failed to meet the rivalry thrown by the private sector. As a result, the market share of public sector companies has decreased significantly.

Conclusion

With huge population in India, the importance of insurance is unquestioned and it is the mainstay of a country’s risk management system. In India, insurance penetration and Insurance density is lower compared to other countries. China, Brazil and Russia registered remarkable growth in the insurance density. After almost 20 years of liberalization of this sector we failed to tap the huge population which is not registered. Even though private companies entered with new products they also failed to tap the population especially rural population. In this regard liberalization of this sector not benefitted India other than throwing competition to public players. Both public and private sector players should take steps to recapture the market by changing their strategies. The future development of this sector depend on how efficiently the insurers are able to come up with products suitable to our context and how successfully they are able to change the insights of consumers and make them aware of the insurable risks.

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