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A critical study of the role of IRDAI on Indian Insurance sector (2001-2020) with indicators- Penetration, Density and Gross total premiums

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Abstract

Even after 30 years of liberalization, privatization and globalization, and two decades of IRDA's (Insurance Regulatory Authority) inception, the Indian insurance industry does not really appear to have enjoyed the benefit of fruits to the extent expected. Still about 80% of the population do not have a cover for their life and health. It is the time for policy makers, regulatory authority and the participating competitors to take stock of the situation to assess the real growth of the industry in these two decades, identify and plug the vulnerable points and shelve the wrong, conservative policies.The retrospection required would be more effective if it is done by a third party. The present study has been undertaken to perform a comprehensive in-depth analysis of the effect of liberalization on the Indian insurance sector during the two decades of IRDA's inception.

The main objective of the study is to examine the role of IRDA on insurance sector in India with the help of available secondary data from various source by analyzing the indicators: penetration, density, premiums. Each of the indicator is analysed for the period 2001-2020 as per the availability of data and organized it in the form of self-explanatory tables, graphs. Also calculated the growth rates, determined the Compounded Annual Growth Rates (CAGR) for 5/10/20 block years. The data has been critically examined and the findings, conclusions are reported in this communication.

Keywords: IRDAI, insurance, Life, Non-Life, public, private, growth indicators, growth percentage, CAGR

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1.1. Introduction

Insurance sector is an integral part of the financial system which comes under the purview of the Ministry of Finance (Government of India). Insurance industry plays a crucial role in the development of a country. As a financial intermediary it mobilizes and channelize savings into productive units and also stabilizes financial markets. Insurance is a means of protection against the physical and financial loss arising on the happening of un-expected event or condition. The insurance industry has an important socio-economic function to discharge and it plays a vital role within the financial systems and promotes individual welfare. The insurance sector will provide safety and security to the risk which inherent to life in the event of an unforeseen and un-expected loss causing incidents. Insurance is the most effective way of strengthening and hedging the risk. The risk bearing will become collective in exchange of payment called premium, which makes it possible to extend the losses suffered by a few customers among many others who are exposed to similar risks. It is nothing but a contract where in on party (insurer) agrees to pay the other party (insured), a certain sum of money upon happening of contingency against which insurance is required. The Insurance Regulatory and Development Authority (IRDAI) established in 2000 has been entrusted with the duty to protect the interest of holders of insurance policies and to regulate, promote and ensure orderly growth of the insurance industry. The Authority envisions better insurance coverage to the Indian citizens besides augmenting the flow of long-term financial resources to finance the growth of infrastructure.Efforts are on to bring the Indian insurance market to international standards in areas of financial viability, competence, technology and prudential regulations.

1.2.Review of the Literature

Arnika Srivastava and Sarika Tripathi [2000[1]] observed that the changing trends of Indian insurance industry have helped it to cope up with the changing economic environment, become more competitive and finally resulting in bringing innovations in products, distribution channels and marketing strategies.

Kumar and Taneja [2004[2]] and Raju Satya [2004[3]] heighted the opportunities and challenges offered to Indian insurance industry due to Liberalization, Privatization, Globalization (LPG) and the challenges thrown to the agents and development officers, employees, executives to work together to achieve the objectives of the mission- privatization respectively.

Krishnamurthy and et al [2005[4]], in the colloquium on insurance industry in India, discussed all the vital points such as the demand for insurance, effect competitive and risk pressures on the insurance business, the effect of increase of geographic coverage of insurance on the premium cost, advantages on the access to the established management knowledge due to the entry of foreign companies and came out with many suggestions: IRDA's responsibilities lies in protecting the consumer rights by regulating prices, training, products, procedures and processes, the requirement of de-tariffing the market after privatization, the importance of agents in the Indian insurance industry and their regular updating and training, running awareness shows among the public etc.

While the IRDA annual report [2010-11[5]] discusses in detail, the overall status of Indian insurance sector with figures and of course comes out with merits and demerits from its point of view. It also shows clearly the actions taken wherever and whenever standards are inadequate and ineffectively enforced. The point that boosts the morale of the life insurance industry is, IRDA has reported net profit is Rs.2657 crore in 2010-11 against Rs.989 crores in 2009-10. Out of 23 life insurers (including LIC) in operation during 2010-11, 12 companies have registered remarkable net profits which is definitely encouraging the players to come out with many other varieties of products.

Focusing on the indicators like, premium income, insurer's market share, new policies issued and the claims settlement ratio, Nagaraja [2015[6]] highlighted the very low insurance penetration and density when compared with international figures. Also, the study emphasized the need of improving the distribution techniques and developing the products to convince customer by both life & non-life insurers which can also maintain the competitiveness in the industry. Tax benefits can boost the interest of individuals to opt for insurance products as an investment option.

Manoj Kumar Chowdhury [2016[7]] in his study on the rise and growth of insurance sector in pre & post liberalization period in India with a focus on the entry of FDIs, made a general observation that with a life insurance penetration of 4.0% of GDP is much low when compared to 11.5% in Japan and 19.7% in UK. With the establishment of IRDA, a tremendous growth in the performance of insurance industry has been seen within a period of 15 years realizing the rise in the density of policies issued and speed of claims settlement. The Indian insurance market representing about 2% of the global annual insurance business is yet to achieve the targets assigned, double digits complying with the appropriate prudential norms, regular monitoring and other regulations.

A.R.Dubey [2018[8]] emphasised on the factors that have influenced the current trend of insurance such as social security and pension system, risks ,rate of growth of population, household financial savings, interest rates and healthcare system. He opined that performance improved in terms of claim settlement and this can be attributed to the establishment of new insurance companies, new products, price differentiation, improvement in claim settlement and protection of the policy holder. Also, this has caused a creation in the new job opportunities

1.3. Aim of the study: To study the role of IRDAI on Indian Insurance Industry (2001-2020)

1.4. Source of the Data:

- The study is based on purely secondary data
- Data is collected from annual reports of IRDAI
- Data is also collected from reports of IBEF, LIC, GIC, SwissRe and other official websites
- Information from available journals and books

1.5. Methodology:

The methodology adopted for the present study includes analysis of the data pertaining to the important growth indicators of the insurance industry such as:

- Gross Total Premiums
- Penetration
- Density

1.6. Findings and Results:

The present study, where the role of IRDAI on the insurance sector in India (Life and Non-Life) is examined with the help of following indicators.

a. Penetration

b. Density

c. Premiums

i). Growth rate of Premiums

1.6.1Insurance Penetration

The measure of insurance penetration indicates the level of development of the insurance sector in a country. Insurance penetration is measured as the percentage of insurance premium to GDP. It is the ratio of total insurance premiums to Gross Domestic Product in a given year. The year wise insurance penetration percentage for Life and Non-Life insurance from FY 2001 to FY 2020 is shown in Table.3.1.1.

Table.1.6.1.1 The percentage of insurance penetration of Life and Non-Life insurance from FY 2001 - 20

Year	Penetration (%)		
	Life	Non-Life	Total
2000-01	**1.77**	**0.55**	**2.32**
2001-02	**2.15**	**0.56**	**2.71**
2002-03	**2.59**	**0.67**	**3.26**
2003-04	**2.26**	**0.62**	**2.88**
2004-05	**2.53**	**0.64**	**3.17**
2005-06	**2.53**	**0.61**	**3.14**
2006-07	**4.10**	**0.60**	**4.70**
2007-08	**4.00**	**0.60**	**4.60**
2008-09	**4.00**	**0.60**	**4.60**
2009-10	**4.60**	**0.60**	**5.20**
2010-11	**4.40**	**0.71**	**5.11**
2011-12	**3.40**	**0.70**	**4.10**
2012-13	**3.17**	**0.78**	**3.95**
2013-14	**3.10**	**0.80**	**3.90**
2014-15	**2.60**	**0.70**	**3.30**
2015-16	**2.72**	**0.72**	**3.44**
2016-17	**2.72**	**0.77**	**3.49**
2017-18	**2.76**	**0.93**	**3.69**
2018-19	**2.74**	**0.97**	**3.71**
2019-20	**2.82**	**0.94**	**3.76**
2020-21	**3.20**	**1.00**	**4.20**

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After the inception of IRDA, the highest penetration level of insurance industry (both life and non –life) was reported to be 5.20 % in FA 2009 against 2.71% in FA 2001. Later, the level of penetration declined to reach 3.30 per cent in 2014. Again, the insurance penetration raised back from 2015 and reached 4.20 percent in 2021.

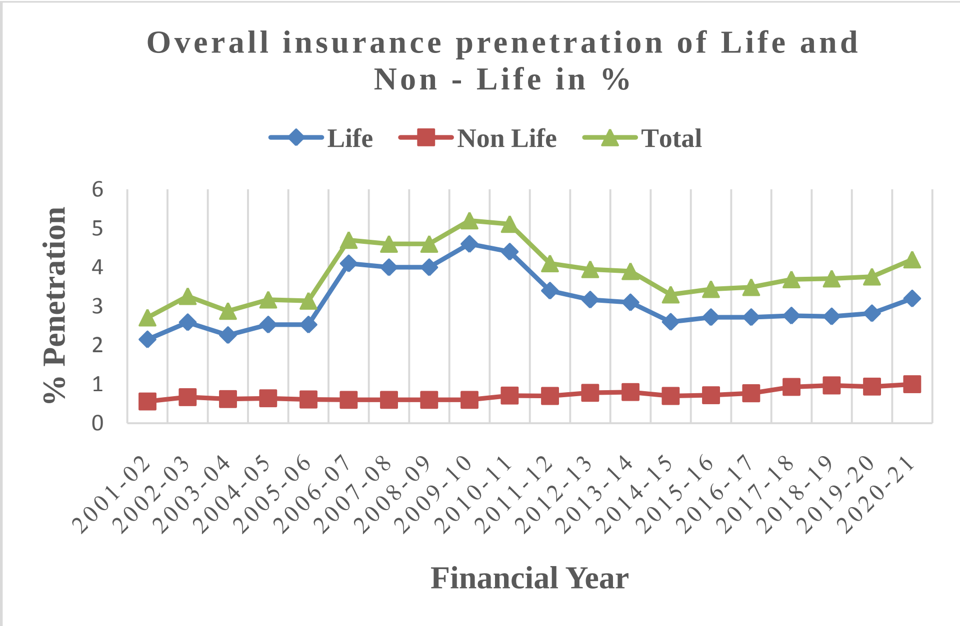

Fig.1.6.1.1 Comparative plots of the penetration levels in life and non- life sectors for the period 2001-2020

1.6.2. Density (in USD)

The insurance density is calculated as the ratio of premium to population (per capita premium) for a given year. It is mentioned in terms of USD /year. The density values in USD for both Life and Non-Life sectors from 2000 to 2020 are presented in Table. 1.6.2.1

Table. 1.6.2.1 The insurance density of Life and Non-Life insurance from FY 2001-FY 2020

Year	Density (USD)		
	Life	Non-Life	Total
2000-01	**7.6**	**2.3**	**9.9**
2001-02	**9.10**	**2.40**	**11.50**
2002-03	**11.70**	**3.00**	**14.70**
2003-04	**12.90**	**3.50**	**16.40**
2004-05	**15.70**	**4.00**	**19.70**
2005-06	**18.30**	**4.40**	**22.70**
2006-07	**33.20**	**5.20**	**38.40**

2007-08	**40.40**	**6.20**	**46.60**
2008-09	**41.20**	**6.20**	**47.40**
2009-10	**47.70**	**6.70**	**54.40**
2010-11	**55.70**	**8.70**	**64.40**
2011-12	**49.00**	**10.00**	**59.00**
2012-13	**42.70**	**10.50**	**53.20**
2013-14	**41.00**	**11.00**	**52.00**
2014-15	**44.00**	**11.00**	**55.00**
2015-16	**43.20**	**11.50**	**54.70**
2016-17	**46.50**	**13.20**	**59.70**
2017-18	**55.00**	**18.00**	**73.00**
2018-19	**55.00**	**19.00**	**74.00**
2019-20	**58.00**	**19.00**	**77.00**
2020-21	**59.00**	**19.00**	**78.00**

The density of Life insurance is found to rise from USD 9.1 to USD 55.50 from 2001 to 2010 followed with downfall till 2013 finally reaching USD 59.00 in 2020. However, even though at low level, the Non-Life sector registered almost a stable raise pattern with USD 2.40 in 2001 to USD 19.00 in 2020 and the total insurance industry density is seen to show a very positive and increasing trend to reach from USD 11.50 in 2001 to reach near to USD 80 in 2020. It can be observed that the density of the industry as whole is influenced by that of the life sector and follows the same trend.

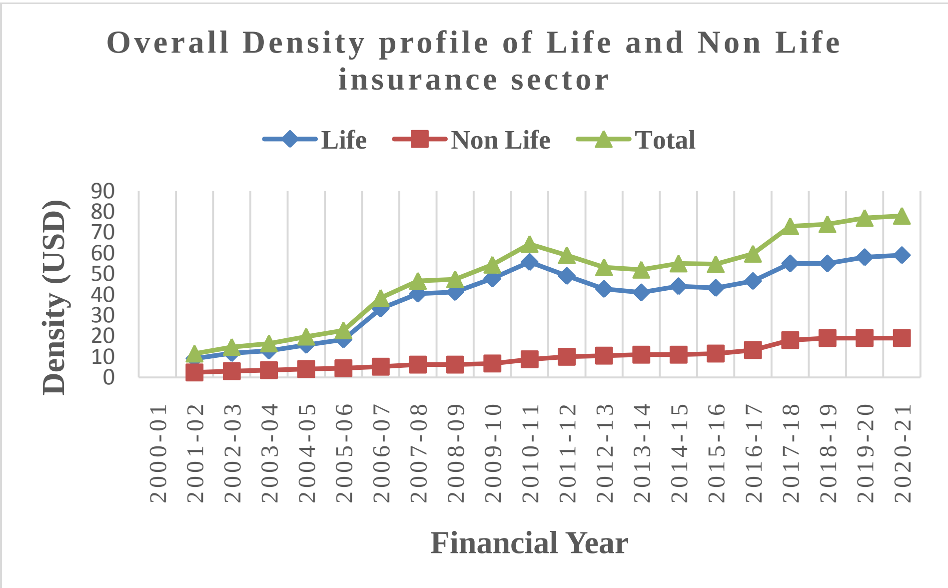

Fig.1.6.2.1 Comparative plots of the density in life and non-life sectors for the period 2001 - 20

1.6.3Premiums (in Rs. Crores)

The value of the premium recorded in Life sector was Rs.628731.04Crore in FY 2020-2021against Rs.34900.00 Crores in FA 2000-2001 where as Non-Life sector registered the premium value of Rs.198714.72 Crore in FA2020 -2021 against Rs.10087.03 Crores in FY 2000-2001 The overall total value of the premiums of the industry in FY 2020 -2021registered a value of Rs.827445.76 against the value of Rs 44987.03crores in the FY2000-2001and the year wise data is presented in Table.1.6.3.1**.** below.

Table.1.6.3.1. The year wise value of the premiums in Rs. Crores for Life and Non-Life insurance from FY 2001-20

Year	Life	Non-Life	Total
2000-01	34900.00	10087.03	44987.03
2001-02	50094.45	12385.24	62479.69
2002-03	55747.55	14870.00	70617.55
2003-04	66287.92	16542.49	82830.41
2004-05	82854.79	17480.59	100335.38
2005-06	105875.76	20359.00	126234.76
2006-07	156075.86	24905.00	180980.86
2007-08	201351.41	27823.74	229175.15
2008-09	221791.26	30351.84	252143.10
2009-10	265450.37	34620.45	300070.82
2010-11	291638.63	42576.45	334215.08
2011-12	287072.11	52875.77	339947.88
2012-13	287202.48	62972.65	350175.13
2013-14	314283.20	70610.62	384893.82
2014-15	328102.00	84686.00	412788.00
2015-16	366943.23	96380.00	463323.23
2016-17	418476.62	128128.34	546604.96
2017-18	458809.44	150662.13	609471.57
2018-19	508132.03	169448.46	677580.49
2019-20	572910.19	188916.62	761826.81
2020-21	628731.04	198714.72	827445.76

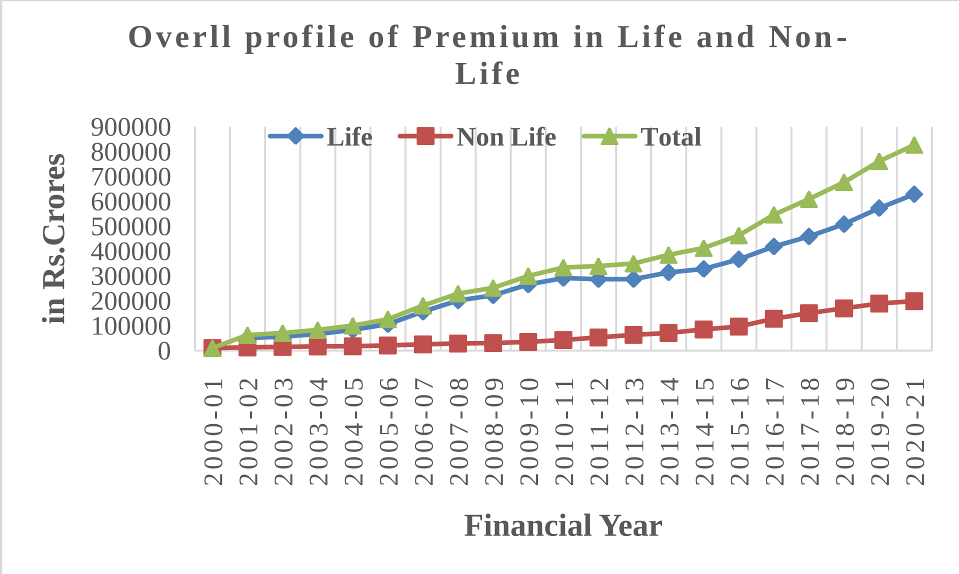

Fig.1.6.3.1 Recorded profile of premiums value in Rs. Crores for the sectors Life and Non-Life along with total for the period FY 2000–20

1.6.3.2.Growth rate of Premium (%)

Even though the total premium value of the industry in Rs. Crores approaches large figures; the actual growth of the industry can be accurately assessed with the rate of growth of premiums in percentage only. The rate of premium growth is calculated as the percentage of increase of the premium of a year with that of the previous year. The growth rates of premium calculated for the FY 2001 to FY 2020 are tabulated and shown below in the Table.1.6.3.2. Overall observation is that the growth rate of both life and Non-Life sector has recorded many ups and downs over 20 years with a final rates of growth in life, non-life and total as 9.74%, 5.19% and 14.93% respectively in the FY 2020.

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Table.1.6.3.2 The rate of growth of premium value in % for Life and Non-Life insurance from FY 2001-20

Year	Life	Non-Life	Total
2000-01			
2001-02	10.12	17.97	38.88
2002-03	11.28	20.06	13.02
2003-04	18.91	11.25	17.29
2004-05	24.31	11.57	21.13
2005-06	27.78	16.46	25.81
2006-07	47.38	21.51	43.37
2007-08	29.01	11.72	26.63
2008-09	10.15	9.09	10.02
2009-10	19.69	14.06	19.01
2010-11	9.87	22.98	11.38
2011-12	9.76	22.98	1.72
2012-13	9.76	19.10	3.01
2013-14	9.43	12.13	9.91
2014-15	4.39	9.20	7.25
2015-16	11.84	13.81	12.24
2016-17	14.04	32.94	17.97
2017-18	9.64	17.59	11.50
2018-19	9.70	12.47	11.18
2019-20	11.31	11.49	12.43
2020-21	9.74	5.19	8.61

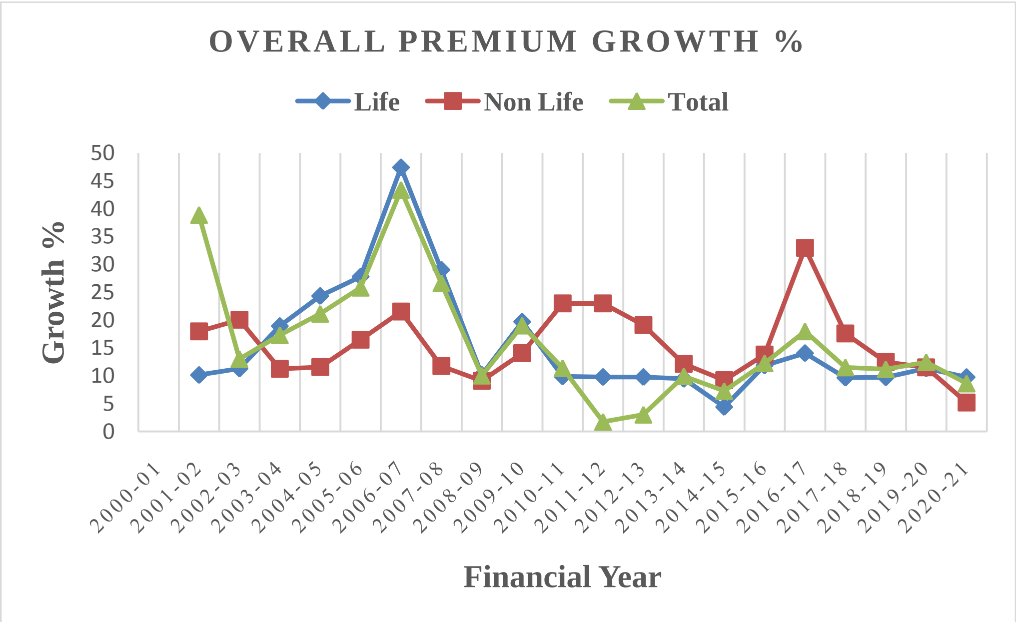

Fig.1.6.3.2. The rate of growth of premium value in % for Life and Non-Life insurance from FY 2001 –20

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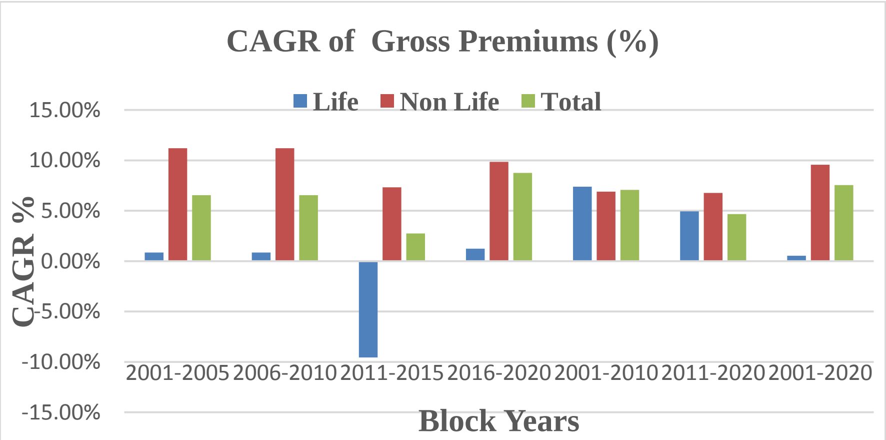
As seen in the Fig.1.6.3.2 the rate of growth of premium has reached as high as 47.38%, 21.51% and 68.89% in Life, Non-Life sectors and Total respectively in the FY 2006 and again exactly after 10 years, in FY 2016 reached 14.04%, 32.94% and 46.98%. In the FY 2020 the growth rate is found to be 9.74%, 5.19% and 14.93% indicating the impact of the Covid-19 pandemic on the industry growth.

CAGR of Gross Premiums (%)			
Block Year	**Life**	**Non-life**	**Total**
2001-2005	0.85	11.20	6.55
2006-2010	0.85	11.20	6.55
2011-2015	-9.56	7.32	2.75
2016-2020	1.23	9.85	8.75
2001-2010	7.38	6.89	7.07
2011-2020	4.94	6.77	4.67
2001-2020	0.54	9.56	7.55



Conclusions

Present study has found the influence of IRDAI on the insurance Indian industry as whole in a period of two decades by considering the indicator such as penetration, density, gross total premiums, and by calculating the growth rate, CAGR of all the above markers.

- Insurance penetration which indicates the level of development in a country, is found to be just 1.77% against the global value of 3.3% in life sector in India. While it's too low at 1.00% in non-life sector when compared to global value of 4.1%. Increasing the Foreign Direct Investments from 26% to 49% influenced the life segment positively whereas a negative and insignificant impact on non-life segment. Overall industry there is a significant positive change.

- In the FY2020 the global insurance penetration of 7.4 % has a considerable contribution of 4.1% coming from non-life sector while in India it is the life sector which continues to dominate the show with a share of 3.2% in a country's total penetration of 4.2%.

- With the global density recording 809 USD, the Indian Insurance industry managed to reach a total of 78 USD with the life sector owing a major contribution of 59 USD while 19 USD came from the non-life sector. While it is entirely different in global scenario with 360 & 449 USD contribution from life and non-life sectors respectively to the global average density of 809 USD pointing towards the kind of speed and the Indian non-life sector has to concentrate to tap the market avenues in order to increase its share.

- The value of the gross total premiums has increased gradually and steadily over the years in both life and non-life sectors reasons being, increased awareness among the population, realizing the necessity of the risk coverage, increase in the per capita income and disposable income contributing to the overall growth of the industry.

- Although the nonlife players have multiplied their business in the past 20 years, it is the life segment that contributing a higher share to the total industry and continue to be a deciding factor of the overall development of the industry.

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