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GROWTH AND DEVELOPMENT OF INDIAN INSURANCE SECTOR

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ABSTRACT

Insurance sector reforms became imperative in the wake of economic liberalization initiated in the early nineties. Malhotra Committee was set-up to recommend insurance sector reforms. Allow private sector entry in Life and General Business; permit entry of foreign players in partnership with Indian Companies and Gradual relaxation of investment norms. The increased growth in the Indian middle income group has posed incremental growth in the insurance sector in India. The average Indian now spends 5.4 times as much on life insurance as what s/he did seven years ago when the industry was yet to be opened up for private participation. With the largest number of life insurance policies in force in the world, India's insurance sector accounted for 4.1 per cent of GDP in 2010-11. Life insurance penetration in India - which was less than 1 per cent till 1990-91 - increased to 2.53 per cent in 2005, and to 7 per cent in 2010-11. The impetus for growth has come from both public and private insurers. Also, the number of players in this segment has also increased to 24 (23 in private sector), with Life Insurance Corporation (LIC) being the dominant player (market share of about 58 per cent). The insurance industry grew at a very rapid pace and with this many new concepts like bancassuance has come in. In this paper the researcher will discuss about various contemporary issues in Indian Insurance industry

Key Words:- Private Insurance players , Bancassurance , IRDA, LIC

Introduction

The increased growth in the Indian middle income group has posed incremental growth in the insurance sector in India. The Indian insurance sector is on a bull run. The average Indian now spends 5.4 times as much on life insurance as what s/he did seven years ago when the industry was yet to be opened up for private participation.

With the largest number of life insurance policies in force in the world, India's insurance sector accounted for 4.1 per cent of GDP in 2010-11, up from 1.2 per cent in 1999-2000, far ahead of China where insurance accounts for just 1.7 per cent of the GDP and even the US where insurance penetration stands at 4 per cent of the GDP. Life insurance penetration in India - which was less than 1 per cent till 1990-91 - increased to 2.53 per cent in 2005, and to 7 per cent in 2010-11. The impetus for growth has come from both public and private insurers. Also, the number of players in this segment has also increased to 24 (23 in private sector), with Life Insurance Corporation (LIC) being the dominant player (market share of about 58 per cent).
General Insurance The general insurance industry grew 12.63 per cent during 2007-08 driven a robust performances by private players. The 15 non-life insurers collected US$ 2.63 billion in premium during 2010-11, against US$ 1.04 billion in 2006-07.

The various contemporary issues responsible for growth of Insurance sector in India are :-

1. Bancassurance: The new light

The Banking and Insurance industries have changed rapidly in the changing and challenging economic environment throughout the world. In this competitive and liberalized environment everyone is trying to do better than others and consequently survival of the fittest has come into effect.This has given rise to a new form of business wherein two big financial institutions have come together and have integrated all their strength and efforts and have created a new means of marketing and promoting their products and services. On one hand it is the Banking sector which is very competitive and on the other hand is Insurance sector which has a lot of potential for growth. When these two join together, it gives birth to BANCASSURANCE.

Bancassurance is nothing but the collaboration between a bank and an insurance company wherein the bank promises to sell insurance products to its customers in exchange of fees. It is a mutual relationship between the banks and insurers. A relationship which amazingly complements each other's strengths and weaknesses.It is a new buzz word in India but it is taking roots slowly and gradually. It has been accepted by banks, insurance companies as well as the customers. It is basically an international concept which is spreading all around the world and is favored by all.

- **Utilities of Bancassurance**

1. **For Banks:**
   i. As a source of fee based income
   ii. Product diversification
   iii. Building close relations with the customers

For Banks

- **As a source of fee based income**

Banks' traditional sources of fee income have been the fixed charges levied on loans and advances, credit cards, merchant fee on point of sale transactions for debit and credit cards, letter of credits and other operations. This kind of revenue stream has been more or less steady over a period of time and growth has been fairly predictable. However shrinking interest rate, growing competition and increased horizontal mobility of customers have forced bankers to look elsewhere to compensate for the declining profit margins and Bancassurance has come in handy for them. Fee income from the distribution of insurance products has opened new horizons for the banks and they seem to love it.

From the banks' point of view, opportunities and possibilities to earn fee income via Bancassurance route are endless. A typical commercial bank has the potential of maximizing fee income from Bancassurance up to 50% of their total fee income from all sources combined. Fee Income from Bancassurance also reduces the overall customer acquisition cost from the bank's point of view. At the end of the day, it is easy money for the banks as there are no risks and only gains.

- **Product Diversification**

In terms of products, there are endless opportunities for the banks. Simple term life insurance, endowment policies, annuities, education plans, depositors' insurance and credit shield are the policies conventionally sold through the Bancassurance channels. Medical insurance, car insurance, home and contents insurance and travel insurance are also the products which are being distributed by the banks. However, quite a lot of innovations have taken place in the insurance market recently to provide more and more Bancassurance-centric products to satisfy the increasing appetite of the banks for such products. Insurers who are generally accused of being inflexible in the pricing and structuring of the products have been responding too well to the challenges (say opportunities) thrown open by the spread of Bancassurance. They are ready to innovate and experiment and have set up specialized Bancassurance units within their fold. Examples of some new and innovative Bancassurance products are income builder plan, critical illness cover, return of premium and other products which are doing well in the market.

- **Building close relations with the customers**

Increased competition also makes it difficult for banks to retain their customers. Banassurance comes as a help in this direction also. Providing multiple services at one place to the customers means enhanced customer satisfaction. For example, through bancassurance a customer gets home loans along with insurance at one single place as a combined product. Another important advantage that bancassurance brings about in banks is development of sales culture in their employees. Also, banking in India is mainly done in the 'brick and mortar' model, which means that most of the customers still walk into the bank branches. This enables the bank staff to have a personal contact with their customers. In a typical Bancassurance model, the consumer will have access to a wider product mix - a rather comprehensive financial services package, encompassing banking and insurance products.

Other advantages to banks are:-

(A)By selling the insurance product by their own channel the banker can increase their income.

(B) Banks have face-to-face contract with their customers. They can directly ask them to take a policy. And the banks need not to go any where for customers.

(C) The Bankers have extensive experience in marketing. They can easily attract customers & non-customers because the customer & non-customers also bank on banks.

(D) Banks are using different value added services life-E. Banking tele banking, direct mail & so on they can also use all the above-mentioned facility for Bankassurance purpose with customers & non-customers.

(E) Productivity of the employees increases.

(F) By providing customers with both the services under one roof, they can improve overall customer satisfaction resulting in higher customer retention levels.

(G) Increase in return on assets by building fee income through the sale of insurance products.

(H) Can leverage on face-to-face contacts and awareness about the financial conditions of customers to sell insurance products.

(I) Banks can cross sell insurance products E.g.: Term insurance products with loans.

For Insurance Companies

- **Stiff Competition**

Insurance industry in India at present have 23 life insurance companies and 14 general insurance companies. Because of the Privatization and Liberalization of the economy it became easy for the private insurance companies to enter into the field which resulted in an urgent need to outwit one another. Even the oldest public insurance companies like LIC and PLI started facing the tough competition. Hence in order to compete with each other and to stay a step ahead there was a need for a new strategy in the form of Bancassurance. It would also benefit the customers in terms of wide product diversification.

- **Cheap in comparison to high cost of agents**

Insurers have been tuning into different modes of distribution because of the high cost of the agencies services provided by the insurance companies. These costs became too much of a burden for many insurers compared to the returns they generate from the business. Hence there was a need felt for a Cost-Effective Distribution channel. This gave rise to Bancassurance as a channel for distribution of the insurance products.

- **Helps in Rural Penetration**

Insurance industry has not been much successful in rural penetration of insurance so far. People there are still unaware about the insurance as a tool to insure their life. However this gap can be bridged with the help of Bancassurance. The branch network of banks can help make the rural people aware about insurance and there is also a wide scope of business for the insurers. In order to fulfill all the needs bancassurance is needed.

- **Multi channel Distribution**

Now a days the insurance companies are trying to exploit each and every way to sell the insurance products. For this they are using various distribution channels. The insurance is sold through agents, brokers through subsidiaries etc. In order to make the most out of India's large population base and reach out to a worthwhile number of customers there was a need for Bancassurance as a distribution model.

- **Targeting Middle income Customers**

In previous there was lack of awareness about insurance. The agents sold insurance policies to a more upscale client base. The middle income group people got very less attention from the agents. So through the venture with banks, the insurance companies can recapture much of the under served market. So in order to utilize the database of the bank's middle income customers, there was a need felt for Bancassurance.

<u>To Customers</u>

1. Tailor made products and distribution activities are directed towards the satisfaction of needs of the customer.
2. Bancassurance model assists customers in terms of saving time and service at their doorstep..
3. A set of comprehensive financial advisory services under one roof. i.e., insurance services along with other financial services such as banking, mutual funds, personal loans, car loans, home loans etc.
4. Easy access for claims, as banks is a regular visiting place for customers.

As customers have more faith in banks and their employees in comparison to Insurance agents any new insurance product routed through the bancassurance Channel would be well received by customers.

2.Entry of Private Players in the insurance sector

Insurance sector reforms became imperative in the wake of economic liberalization initiated in the early nineties. Malhotra Committee was set-up to recommend insurance sector reforms. Allow private sector entry in Life and General Business; permit entry of foreign players in partnership with Indian Companies and Gradual relaxation of investment norms.

Insurance Regulatory and Development Authority (IRDA) Act was passed by parliament and as a result IRDA was established which promulgated various regulations. The regulations provides for compulsory registration of new private sector companies.

Benefit to Consumers

With the entry of new firms having foreign collaborations provides the consumers with choice of insurance wider range of new and innovative products, competitive pricing of products and services, access to information about companies and products, continuous education, a well trained and highly professional sales force, prompt and courteous front office response, greater focus on customers services, world class pre and post sales services and efficient and customer friendly claim administration systems.

Benefit to Society

It provides for the followings.

(A) Direct Employment Opportunities as Agents, Brokers and Back Office Operations Staff, Surveyors and Assessors. Managers for functions like sales and Marketing, I.T. Training, HR, Finance and Accounts, Actuarial and Understanding. Board and Secretariat, Asset Management etc.

(B) Indirect Employment Opportunities: It Industry. Higher demand for insurance related hardware as well as software solutions. Greater demand for computer engineers and software developers. Expertise to develop application software systems like premium accounting system, Claim administration and payment systems, Sales Activity Management (SAM) systems, Customer Relationship Management (CRM) systems.

(C) Miscellaneous Service Providers: Greater demand for outsourced services like HR, Accounting, Actuarial, Consultancies, etc. Real Estate Advisory Services. Postal and Courier Services. Cleaning. Cleaning and Pantry services and Security Services.

(D) Training and Education Services: Need for expansion of existing facilities to meet the rising demand for trained-sales and marketing personnel. Technical support staff to manage back office operations. Emphasis on insurance related research and development activities. Opportunities for universities and training courses. Greater demand for qualified people certified by the Insurance Institute of India (III) and Actuarial Society of

India (ASI). Insurance Intermediaries. Brokers, Loss Assessors and Surveyors. Need for adequately qualified to be certified by appropriate statutory professional bodies, which may be set up in due course. Premium on appropriate training facilities etc.

(E) Market Research Agencies: These agencies will stand to gain as competition will force insurance companies to undertake periodic market researches to establish a more objective relationship between the buyers and the products on offer. Product development will assume great significance and market research will be an essential input. Greater demand for professional market research companies. Advertising PR and Event Management services. Professionals will also have a booming business to meet the progressively rising demand for their services in the emerging scenario in the insurance industry.

(F) Support to Infrastructure: Another significant benefit which society should look forward to is the tremendous support that competitive insurance industry is likely to provide, a few years down the line though, to infrastructure rate. Greater mobilization of people, s savings towards insurance premium will have the effect of diverting more investments of insurance funds into long-term infrastructure projects, consistent with prudent ALM norms and also the IRDA Guidelines. Higher investment in infrastructure projects will have the effect of pushing up the industrial growth rate of related industries.

The insurance sector offers the following job opportunities.

1. Investment professionals
2. Administrative Officers
3. Development Officers
4. Insurance Brokers
5. Insurance Surveyors
6. Insurance Agents.
7. The Actuary

8. Professional Underwriters
9. Marketing of Insurance Polices
10. Software Professionals

3. Alternate Channels of Distribution

Traditionally, insurance products were promoted and sold principally through agency systems only. The reliance of insurance industry was totally on the agents. Moreover with the monopoly of public sector insurance companies there was very slow growth in the insurance sector because of lack of competition. The need for innovative distribution channels was not felt because all the companies relied only upon the agents and aggressive marketing of the products was also not done. But with new developments in consumers' behaviours, evolution of technology and deregulation, new distribution channels have been developed successfully and rapidly in recent years.

Career Agents:

Career Agents are full-time commissioned sales personnel holding an agency contract. They are generally considered to be independent contractors. Consequently an insurance company can exercise control only over the activities of the agent which are specified in the contract. Many bancassurers, however avoid this channel, believing that agents might oversell out of their interest in quantity and not quality. Such problems with career agents usually arise, not due to the nature of this channel, but rather due to the use of improperly designed remuneration and incentive packages.

Special Advisers:

Special Advisers are highly trained employees usually belonging to the insurance partner, who distribute insurance products to the bank's corporate clients. The Clients mostly include affluent population who require personalised and high quality service. Usually Special advisors are paid on a salary basis and they receive incentive compensation based on their sales.

Salaried Agents:

Salaried Agents are an advantage for the bancassurers because they are under the control and supervision of bancassurers. These agents share the mission and objectives of the bancassurers. These are similar to career agents, the only difference is in terms of their remuneration is that they are paid on a salary basis and career agents receive incentive compensation based on their sales.

Corporate Agencies and Brokerage Firms:

There are a number of banks who cooperate with independent agencies or brokerage firms while some other banks have found corporate agencies. The advantage of such arrangements is the availability of specialists needed for complex insurance matters and through these arrangements the customers get good quality of services.

Direct Response:

In this channel no salesperson visits the customer to induce a sale and no face-to-face contact between consumer and seller occurs. The consumer purchases products directly from the bancassurer by responding to the company's advertisement, mailing or telephone offers. This channel can be used for simple packaged products which can be easily understood by the consumer without explanation.

Internet:

Internet banking is already securely established as an effective and profitable basis for conducting banking operations. Bancassurers can feel confident that Internet banking will also prove an efficient vehicle for cross selling of insurance savings and protection products. Functions requiring user input (check ordering, what-if calculations, credit and account applications) should be immediately added with links to the insurer. Such an arrangement can also provide a vehicle for insurance sales, service and leads.

4. Uniform Tax Concessions

There are certain sections of the Income Tax Act 1961 which provide some concessions to Life Insurance Corporation of India Viz. Sections 80 CC (1) 88, 193, 194A and Section 36 (V) of the income Tax Rules which are not available to recently joined Private Sector Insurance Companies. At present tax rebate is granted on repayment of Loans taken from L.I.C. for the purchase and construction of residential houses under Section 88 of the Income Tax Act. L.I.C. interest earnings are also exempted from withholding of tax under Section 193 and 194A of the Income Tax Act. Currently the gratuity and Super-annuation policies purchased from LIC are eligible for deduction under Section 36 (V) of the Income Tax Rules. At Present up to Rs. 150,000 P.A. states that qualifying investments, up to a maximum of Rs. 1.5 Lakh, are deductible from your income. This means that your income gets reduced by this investment amount (up to Rs. 1.5 Lakh), and you end up paying no tax on it at all under section 80 c of the Income Tax Act.

5.Increased Pension Coverage

A few years back FICCI conducted a study on Pension as a social security scheme. It concluded that the lack of comprehensive social security system in the country, coupled with willingness to save means that Indian demand for pension products would be very large. However unfortunately the present penetration of pension coverage is poor. By March 1988, the life Insurance Corporation of India,s (LIC) Pension premium was only Rs. 100 crore. The study further concluded that marking pension products into attractive saving instruments would require only simple innovations which are already common in some other markets.

The Insurance Regulatory and Development Authority (IRDA) has recently recommended a new, voluntary pension regime for everyone including the unorganized sector, according to the Dave Committee implementation report. The report submitted now by IRDA to the Finance Ministry, suggests wide-ranging reforms for this sector. The report however does not mandate any minimum annual contribution or the spacing of contribution across time. In short, an individual will be able to access the collection points at any time and will have complete freedom to transfer a part or the full asset from one scheme to another with the same or different provider company

6. **India to emerge among leading life and non-life insurance markets by 2020: FICCI**

The number of life policies in force has increased 12 times and the health insurance has increased by 25 times over the past decade. Better terms and availability of a wide variety of products is the main reason for the growth of the industry

According to a study conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI) and the US-based Boston consulting group, the Indian insurance sector is likely to touch about $350 to $400 billion in premium income by 2020, making India one of the top three life insurance markets.

The report said that India will also be among the top 15 non-life insurance markets by that time. The size of insurance coverage has increased hugely in India. The number of life policies in force has increased 12 times and the health insurance has increased by 25 times over the past decade. The better terms and availability of a wide variety of products is the main reason for the growth of the industry.

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