

Insurance : The Indian Experience

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As a part of the financial sector reforms, the insurance sector has been liberalised recently. With this, the stage has been set for major changes in the insurance market in India with regard to innovations in product, pricing and distribution. This will also necessitate effective regulation to meet the new challenges this sector is likely to encounter in the liberalised environment. In this context, the paper attempts to make an overview of the insurance system in India. The paper also attempts to evaluate the insurance penetration achieved in the country as compared to world standards and traces future scope for this sector as a facilitator for economic and financial development of the country.

Introduction

The economic reforms initiated in the country since mid-1991, have been aimed at increasing efficiency by expanding the role of the private sector along with inflow of investment and technology, while allowing a greater role of market forces. Insurance being one of the key components of the financial sector, reforms in the financial sector would encompass insurance sector reforms also. In the liberalised environment, with increased sophistication and innovation, insurance is seen as a key segment of the financial market. Insurance is therefore an area, which holds immense potential, especially for an emerging economy like India. A Committee on Reforms of the Insurance Sector (Chairman: R.N. Malhotra) was appointed by the Government of India in April 1993 to examine the regulation and structure of the insurance industry. Based on the Report submitted by the Committee in January 1994, concrete steps have been taken by the Government in 1999, after much deliberation, towards liberalisation of the insurance sector.

The paper traces the evolution of the insurance market in India. Section I of the paper deals with the theoretical aspects of insurance. Section II traces the historical perspectives of insurance in India. Sections III and IV deal with the business and investments of life and non-life insurance in India, respectively. In Section V, an assessment of insurance penetration in India is made in comparison with world standards. Section VI discusses the role of insurance in financial savings of the household sector. Section VII covers regulation of insurance in India and Section VIII gives concluding observations.

Section 1 Theoretical Aspects of Insurance

From the definitional angle, the term insurance can be best understood by referring to the two important schools of thought on the subject *viz.*, (i) transfer school and (ii) pooling school. According to the transfer school, "Insurance is a device for the reduction of uncertainty of one party, called the insured, through the transfer of particular risks to another party, called the insurer, who offers a restoration, at least in part, of economic losses suffered by the insured" (Pfeffer Irving, 1956). On the other hand, according to the 'pooling' school, "..... the essence of insurance lies in the elimination of the uncertain risk of loss for the individual through the combination of a large number of similarly exposed individuals" (Manes Alfred, 1935). Thus, in

the case of an individual, insurance is a transfer mechanism through which he passes on risk to the insurer. Whereas, for the insurer, insurance is a pooling mechanism by which he reduces risk in the context of his business.

Insurance markets are generally characterised by asymmetric or imperfect information. In such markets, there is uncertainty about the actual behaviour of the insured. The insured possesses better information about himself or his risk type than the insurer. The high-risk insureds have incentives to hide their true state and present themselves as low risk types. The difficult problem faced by the insurance companies is the exact evaluation of risk and to adjust the premium accordingly at the time of signing of the insurance contract. In other words, the insurer will have to fix up the price and the amount of insurance the customer can buy at that price. Higher premium will attract a pool of more risky insurance applicants and will lead to the problem of 'adverse selection', while the applicants with small risks will drop out. Higher insured values may lead to 'moral hazard' problems, as it will create an incentive for the insured to take increased risks than he would otherwise take. The problem of moral hazard, though unimportant in the case of life insurance (as no one would try to take his own life in normal circumstances), can be severe in the area of non-life insurance. It is therefore necessary for the insurance companies to strike a correct balance between the premium and the extent of risk covered.

Section II

An Historical Perspective

One of the main features of the pre-nationalised insurance sector was the utilisation of the insurance sector as a backup or extension by the well known industrial houses of India. There are mainly two forms of insurance in India *viz.*, life and non-life. Life insurance provides protection to a household against the risk of premature death of its income-earning member. Non-life insurance can be grouped under three heads *viz.*, fire, marine and miscellaneous insurance. Life Insurance Corporation of India carries on life insurance business and the General Insurance Corporation and its four subsidiaries deal with non-life insurance. After liberalisation of the insurance sector in 1999, private players have entered both life and non-life business in India. The Insurance Regulatory and Development Authority (IRDA) was constituted in April 2000 as an autonomous body to regulate and develop the business of insurance and re-insurance in the country in terms of the Insurance Regulatory and Development Authority Act, 1999.

Life Insurance

The life insurance business was first introduced in India by a British firm in 1818. Initially, higher premiums were charged for insuring Indian lives as against non-Indian lives. The Bombay Mutual Life Assurance Society, an Indian insurer, set up in 1871 was the first to charge same premium for both Indians and non-Indians. The decades of 1920s and 1930s witnessed rapid growth of life insurance in India. In order to regulate the life insurance business, the Indian Life Assurance Companies Act, 1912 was enacted. The enactment of the Insurance Act, 1938 introduced effective State control over the insurance business in the country. After independence, Indian companies came into their own. In 1956, the Life Insurance Corporation of India was formed when the Government of India brought together the insurance business of 245¹ Indian and foreign insurers and provident societies, under one nationalised monopoly corporation called

Life Insurance Corporation (LIC). Since nationalisation, LIC developed a vast network of branches and expanded its business. LIC also extends pension cover to the insured apart from life cover. Acting on the recommendations of the Committee on Reforms in the Insurance Sector (1994), private players were allowed into the Life insurance business in 2000. During 2000-01, there were 6 registered private companies engaged in the business of life insurance.

General Insurance

The first general insurance company *viz.*, Triton Insurance Company Ltd. was established in Calcutta in 1850. Its shareholders were mainly British. The first Indian company for General Insurance business was the Indian Mercantile Insurance Company Ltd., set up in 1907 in Mumbai. The general insurance business in India was nationalised with effect from January 1973 by the General Insurance Act, 1972. As a result, 107 insurers (including both Indian and foreign companies) were amalgamated and grouped into four companies *viz.*, the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd.

General Insurance Corporation (GIC) was incorporated as a company in November 1972 and it commenced business on January 1, 1973. GIC has been acting as the Indian reinsurer² since then. GIC has also been accepting overseas reinsurance business. For regulation of product pricing of general insurance, a Tariff Advisory Committee (TAC) started functioning since 1968 headed by the Controller of Insurance. After the nationalisation of GIC in 1972, the management of TAC was delegated to GIC. Acting on the recommendations of the Committee on Reforms in the Insurance Sector (1994), private players were allowed into the non-Life insurance business also in 2000. During 2000-01, there were 4 registered private companies engaged in the business of non-life insurance.

Section III Business and Investments of Life Insurance Companies

Since nationalisation of the life insurance business in India in 1956 and non-life business in 1972, rapid strides have been made in the development of the insurance sector. The Life Insurance Corporation has introduced different types of policies to suit different income groups and age groups over the years. These insurance policies include term, whole life, endowment, annuity, individual, group and pension plans. This has afforded reasonable variety of investment schemes to the investors. The number of offices of LIC increased from 889 in 1981-82 to 2048 in 2000-01 (Table 1). The number of policies grew from 3.7 per cent in 1981-82 to 12.0 percent in 2000-01. This growth, which peaked at 12.8 per cent in 1990-91, could not be maintained in the subsequent years. The growth in the sum assured which was 14.7 in 1981-82, peaked to a high of 27.4 per cent in 1989-90, but eventually declined to 20.3 per cent in 2000-01.

The rural new business of LIC as a percentage of its overall new business has grown well during the 1980s and 1990s. The penetration in the rural areas was more pronounced in the 1990s than in the 1980s (Table 1).

Table 1 : Life Insurance Business of LIC

Year	Business in Force			New Business			
	All India			All India		Rural	
	No. of Offices	No. of Policies (in Lakh)	Sum Assured (Rs. Crore)	No. of Policies (in Lakh)	Sum Assured (Rs. Crore)	No. of Policies (in Lakh)	Sum Assured (Rs. Crore)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1981-82	889	236.0	23,998	21.0	3,479	6.9	927
1982-83	958	243.8	26,264	22.3	3,974	7.3	1,038
1983-84	1,023	252.7	30,266	23.7	4,387	8.3	1,260
1984-85	1,107	264.8	33,785	27.0	5,376	9.5	1,570
1985-86	1,197	279.9	40,404	32.9	7,056	12.2	2,177
1986-87	1,280	298.0	47,906	38.7	9,068	14.8	2,916
1987-88	1,353	323.5	58,798	46.9	12,435	18.3	3,997
1988-89	1,427	360.8	74,129	59.8	17,223	24.1	5,818
1989-90	1,528	403.4	94,408	73.9	23,220	30.5	8,086
1990-91	1,651	455.1	1,18,651	86.5	28,139	36.8	10,295
1991-92	1,774	508.6	1,45,929	92.4	32,064	41.3	12,440
1992-93	1,906	566.1	1,77,268	99.6	35,957	44.4	14,085
1993-94	2,008	608.0	2,07,601	107.3	41,814	48.6	16,680
1994-95	2,021	654.5	2,53,333	108.7	55,229	49.0	21,571
1995-96	2,024	708.8	2,94,336	110.2	51,816	52.6	21,264
1996-97	2,023	776.7	3,43,018	122.7	56,741	60.3	24,279
1997-98	2,046	849.2	3,98,959	133.1	63,618	68.4	27,551
1998-99	2,048	916.4	4,57,435	148.4	75,316	81.2	35,373
1999-00	2,048	1,013.0	5,34,589	169.7	91,214	97.0	44,169
2000-01	2,048	1,130.2	6,43,241	196.6	1,24,772	109.1	59,641

Source: Annual Reports of LIC.

The share of rural to total new business in terms of number of policies has increased from 32.8 per cent in 1981-82 to 55.5 percent in 2000-01. In terms of sum assured, this share increased from 26.6 per cent in 1981-82 to 47.8 per cent in 2000-01. The Committee on Reforms in the Insurance Sector (Malhotra Committee) had recommended that it should be made mandatory for

insurance companies to transact a minimum business in rural areas and they should not be allowed to avoid small policies. With improving rural infrastructure, rising incomes and greater awareness among the rural people regarding the importance of life cover, further growth in rural insurance business can be achieved.

Life Insurance Business of Private Companies

The insurance market was opened to the private sector in August 2000 and the initial batch of new registrations was granted on 23rd October, 2000. During 2000-01, there were 6 registered private life insurance companies viz., (i) Birla Sun-Life Insurance Company Ltd. (BSLIC), (ii) HDFC Standard Life Insurance Company Ltd. (HSLIC), (iii) ICICI Prudential Life Insurance Company Ltd. (IPLIC), (iv) Max New York Life Insurance Company Ltd. (MNYLIC), (v) SBI Life Insurance Company Ltd. (SLIC) and (vi) TATA AIG Life Insurance Company Ltd. (TALIC). Out of these, only 4 companies viz., BSLIC, HSLIC, IPLIC and MNYLIC have started doing business by the end of March 2001. The business of these 4 companies during 2000-01 is given below (Table 2).

Table 2 : Life Insurance Business of Private Companies during 2000-01

	(Figures in Lakhs)			
	BSLIC	HSLIC	IPLIC	MNYLIC
No. of Policies	0.01	0.01	0.06	0.02
Sum Assured (Rs.)	552.50	3,015.06	10,000.00	1,335.31
Annual Premium (Rs.)	31.90	67.19	597.00	15.98

Source : First Annual Report of Insurance Regulatory and Development Authority, 2000-01.

Investments of LIC

The investments of an insurance company are intended to build up reserves and not to book short-term profits. These reserves provide a cushion for long-term contingencies, which can be directed towards investment in socially desirable sectors like infrastructure.

The provisions of Section 27 A of the Insurance Act, 1938 as amended from time to time have prescribed the investment patterns for life insurance. The Malhotra Committee (1994) had recommended that the mandated investment of funds of LIC should be reduced from the then existing level of 75 per cent to 50 per cent. Consequent to the liberalisation of the insurance sector, and as per the notification of IRDA (Investment) Regulations, 2000 dated August 14, 2000, the life insurance companies have to invest a minimum of 50 per cent of their total assets in government and other approved securities. They are also required to invest a minimum of 15 per cent in infrastructure and social sectors, leaving the balance 35 per cent free for investment in the capital market.

The investment pattern of LIC for the period 1980-81 to 2000-01 shows that major share of its investments were in Central and State Government securities followed by loans to State and

Central government and their Corporations and Boards (Table 3). The share of investments in Central and State Government securities increased from 55.0 per cent in 1980-81 to 79.8 per cent in 2000-01. On the other hand, the share of investments in the form of loans to State and Central government and their Corporations and Boards declined from 41.7 per cent in 1980-81 to 18.3 per cent in 2000-01.

Table 3 : Investments of Life Insurance Corporation of India

Year	Loans to State and Central Government and their Corporations and Boards <i>etc.</i>	Stock Exchange Securities (Central Govt. State Govt. Securities and Others)	Special Deposits with Central Government	Other Investments (UTI, LIC, MF <i>etc.</i>)	(Rs. Crore)
					Investment out of India
(1)	(2)	(3)	(4)	(5)	(6)
1980-81	2,726	3,591	106	72	40
1981-82	3,072	4,041	241	78	41
1982-83	3,427	4,603	341	87	41
1983-84	3,755	5,239	471	102	46
1984-85	4,072	5,948	621	114	49
1985-86	4,474	6,823	771	137	60
1986-87	4,885	7,930	921	143	78
1987-88	5,442	9,231	1,071	130	89
1988-89	6,218	10,932	1,259	190	103
1989-90	7,260	12,919	1,409	262	109
1990-91	8,895	15,671	1,483	297	126
1991-92	1,102	19,059	1,528	414	181
1992-93	13,092	23,082	1,628	410	195
1993-94	14,603	29,538	1,698	496	227
1994-95	16,114	37,278	1,839	628	323
1995-96	18,086	47,088	1,970	802	332
1996-97	20,487	58,851	2,140	772	415
1997-98	22,882	72,537	2,380	758	410
1998-99	26,110	90,824	2,192	920	400
1999-00	28,925	1,14,032	2,042	906	458
2000-01	32,155	1,40,106	1,862	891	476

Source: Life Insurance Corporation of India.

Section IV

Business and Investment of Non-Life Insurance in India

The general insurance companies mainly specialise in insurance business like fire, marine, aviation, theft, crop, accident, health (medi-claim) etc. General insurance policies, unlike life insurance policies are short duration contracts. Also, general insurance policies, in comparison to life insurance policies do not mobilise savings, but they collect funds from the premiums paid. The number of offices of GIC has more than trebled from 1272 in 1980-81 to 4177 in 2000-01 (Table 4). However, after 1992-93, this growth was either negligible or negative. As regards the growth in the number of policies and net claims payable of GIC and its subsidiaries, no steady pattern is observed. However, the volume of business in terms of number of policies and net claims payable has improved substantially over the years.

Table 4 : Business of GIC and its subsidiaries

Year	No. of Offices	No. of Policies	Net Claims Payable (Rs. Crore)
(1)	(2)	(3)	(4)
1980	1,272	N.A.	296
1981	1,346	N.A.	360
1982	1,550	N.A.	435
1983	1,684	N.A.	512
1984	2,229	1,18,51,020	689
1985	2,731	1,35,24,793	795
1986	3,089	1,44,09,538	904
1987	3,489	1,63,63,931	1,008
1988-89*	3,727	2,12,53,053	1,676
1989-90	4,025	1,79,74,945	1,503
1990-91	4,180	2,03,32,070	1,898
1991-92	4,304	2,21,55,284	2,303
1992-93	4,352	2,10,82,757	2,839
1993-94	4,236	2,11,88,038	3,050
1994-95	4,202	2,19,82,359	4,289
1995-96	4,213	2,45,90,980	4,427
1996-97	4,220	2,76,00,225	5,105
1997-98	4,208	2,97,58,577	5,625
1998-99	4,166	2,92,18,297	6,461
1999-00	4,174	3,39,70,855	7,586
2000-01\$	4,177	3,72,94,002	8,872

*15 Months. \$ Provisional. N.A. : Not available.

Note : Data upto 1987 are as at end December and for the remaining years data are as at end March.

Source : General Insurance Corporation of India.

The rural business of GIC and its subsidiaries form only 5.2 per cent of total domestic general insurance premium in 1998-99 (latest available). The non-life business transacted in the rural areas mainly relates to insurance of livestock. Major portion of this business transacted relates to livestock cover under the Integrated Rural Development Programme (IRDP) with bank credit linkages, where insurance is mandatory. Other rural businesses covered include agricultural pumpsets, Janata Gramin Personal Accident, commercial poultry farms and other businesses including pisciculture and sericulture.

Non-Life Insurance Business of Private Companies

During 2000-01, there were 4 registered private non-life insurance companies viz., (i) IFFCO-Tokio General Insurance Company Ltd., (ITGIC), (ii) Reliance General Insurance Company Ltd. (RGIC), (iii) Royal Sundaram Alliance Insurance Company Ltd. (RSAIC), (iv) TATA AIG General Insurance Company Ltd. (TAGIC). The business of these companies during 2000-01 was very low (Table 5).

Table 5 : Non-Life Insurance Business of Private Companies during 2000-01

	(Rs. Crore)			
	ITGIC	RGIC	RSAIC	TAGIC

Net Claims Payable	0.00	0.00	0.02	0.00
Net Premium	0.25	0.00	0.19	0.00

Source : First Annual Report of Insurance Regulatory and Development authority, 2000-01.

Investments of General Insurance Companies

The provisions of Section 27 B of the Insurance Act 1938 as amended from time to time has prescribed the investment patterns for non-life insurance. The Malhotra Committee (1994) had recommended that the mandated investment of funds of the general insurance companies should be reduced from the then existing level of 70 per cent to 35 per cent. In April 1995, the Government relaxed the investment policies of GIC and its subsidiaries and they were allowed to invest upto 55 per cent of the annual accretion of their funds in market oriented schemes as against 30 per cent earlier. Consequent to the liberalisation of the insurance sector, and as per the notification of IRDA (Investment) Regulations, 2000 dated August 14, 2000, the investments of non-life insurance companies cannot be less than 30 per cent in government and other approved securities. They are also required to invest a minimum of 10 per cent in infrastructure and social sectors and a minimum of 5 per cent in the area of housing and fire fighting. Of the balance 55 per cent, 30 per cent will be governed by prudential norms, while 25 per cent can be invested in unapproved securities including investment in equities.

Table 6 : Investments of GIC and its Subsidiaries

Year	(Rs. Crore)				
	Central Govt. Securities	State Govt. & Public Sector	Soft Loans for Housing & Fire Fighting	Market Investment	Other Investment
(1)	(2)	(3)	(4)	(5)	(6)
1980	189	83	74	299	243
1981	232	106	117	326	303
1982	327	136	200	388	268
1983	387	166	323	491	280
1984	453	204	423	660	147
1985	522	222	548	741	142
1986	599	247	707	869	144
1987	657	302	813	989	154
1988-89*	729	376	1,002	1,149	257
1989-90	794	450	1,181	1,394	315
1990-91	952	549	1,438	1,617	606
1991-92	1,066	648	1,654	2,111	856
1992-93	1,270	796	1,957	2,761	856
1993-94	1,567	875	2,481	3,128	979
1994-95	1,793	1,022	3,048	3,727	986
1995-96	2,214	582	2,941	5,380	1,716
1996-97	2,647	861	2,954	6,226	2,205
1997-98	3,166	1,166	3,113	6,945	2,886
1998-99	3,649	1,497	3,175	8,224	3,194
1999-00	4,391	2,139	3,198	9,691	3,240
2000-01\$	5,125	2,550	3,404	10,637	2,293

* 15 months. \$ Provisional.

Note : Data upto 1987 are as at end-December and for the remaining years data are as at end-March.

Source : General Insurance Corporation of India.

The investment pattern of GIC and its subsidiaries for the period 1980-81 to 2000-01 shows that the important avenues for its investments were in market investment followed by Central Government securities (Table 6). Market investments of GIC and its subsidiaries increased from 33.7 per cent in 1980-81 to 44.0 per cent in 2000-01. Whereas the investments in Central Government securities decreased marginally from 21.3 per cent in 1980-81 to 21.0 per cent in 2000-01. The investment pattern of GIC is thus different from that of LIC, whose major investments are in Central and State Government securities.

Section V

Insurance Penetration in India as Compared to Global Standards

Insurance density, measured in terms of premium per capita, was much lower in emerging markets in 2000 as compared with the industrialised countries of the world (Table 7). Similarly, insurance premium as percentage of GDP *i.e.*, insurance penetration, was lower in the emerging markets as compared to the industrialised countries in 2000. However, South Africa and South Korea, which figure among the emerging markets are exceptions and are among the forerunners in insurance penetration. Of the total world insurance business in terms of insurance premiums, nine-tenths were contributed by industrialised countries, whereas, the emerging markets accounted for 10 per cent of total world business in insurance. However, the growth rate of premium in 2000 in the emerging markets was higher as compared with the industrialised countries, indicating the growing importance of the insurance sector in the former. India's insurance penetration was only 2.3 per cent, as against the world average of 7.8 per cent in 2000 (Table 8). The low insurance penetration reflects on the vast potential for the development of insurance market in India.

Table 7 : Continent-wise Market Share of World Insurance Business and Growth in Premium in 2000

Continent	Share of World Market (%)	Real Premium Growth (%)	Premium as % of GDP	Premium per capita (USD)
(1)	(2)	(3)	(4)	(5)
America	39.0	4.9	7.6	1,165
North America	37.3	4.8	8.6	2,988
Latin America	1.7	6.6	2.1	80
Europe	31.9	11.9	8.2	945
Western Europe	31.2	11.8	8.7	1,607
Central/East Europe	0.7	15.8	2.5	52
Asia	26.5	2.8	7.7	180

Japan	20.6	0.6	10.9	3,973
S&E Asia	5.4	11.7	4.2	42
Middle East	0.4	5.3	1.6	36
Africa	1.0	7.5	4.1	32
Oceania	1.6	1.7	8.9	1,316
World	100.0	6.6	7.8	405
<i>Industrialised Countries*</i>	<i>90.7</i>	<i>6.2</i>	<i>9.1</i>	<i>2,384</i>
<i>Emerging Markets#</i>	<i>9.3</i>	<i>10.3</i>	<i>3.2</i>	<i>44</i>

* North America, Western Europe, Japan and Oceania.

Latin America and Caribbean, Central and Eastern Europe, South and East Asia, Middle East and Africa.

Source: Swiss Re, Sigma No. 6/2001.

Opening up of the insurance sector has been a key component of economic reforms put in place in South and East Asian economies in the 1980s and 1990s. The major insurance markets in South and East Asia are generally open indicating the impact of the reform measures. Since liberalisation of the Korean and Taiwanese insurance markets in 1987, these markets grew at a much faster pace than before, suggesting that liberalisation of the insurance sector facilitated growth of insurance in these countries.

**Table 8 : International Comparison of Insurance Penetration in 2000 :
Premiums as share of Gross Domestic Product (%)**

Continent	Select Countries	Total Business	Life	Non-Life
North America	United States	8.8	4.5	4.3
	Canada	6.6	3.3	3.3
Latin America	Panama	5.0	1.6	3.5
	Chile	4.1	2.9	1.2
	Colombia	2.3	0.6	1.6
	Brazil	2.1	0.4	1.8
	Argentina	2.5	0.9	1.6
	Venezuela	1.9	0.1	1.8
	Uruguay	1.9	0.3	1.6
	Mexico	1.7	0.9	0.9
Europe	Switzerland	12.4	7.7	4.7
	United Kingdom	15.8	12.7	3.1
	France	9.4	6.6	2.8
	Germany	6.5	3.0	3.6
	Italy	5.8	2.4	2.5
	Sweden	4.5	2.0	2.5
Asia	Russia	1.6	3.4	2.4
	South Korea	13.1	9.9	3.2

	Japan	10.9	8.7	2.2
	Taiwan	7.4	5.1	2.3
	Singapore	4.2	3.2	1.0
	Malaysia	3.7	2.1	1.6
	India	2.3	1.8	0.6
	Thailand	2.5	1.5	1.0
	Philippines	1.4	0.8	0.6
	China	1.8	1.1	0.7
Africa	South Africa	16.9	14.0	2.8
	Zimbabwe	4.0	2.0	2.1
	Kenya	2.6	0.7	1.9
	Morocco	2.8	0.8	2.0
	Tunisia	1.7	0.1	1.6
Oceania	Australia	9.4	6.0	3.4
	New Zealand	6.0	1.6	4.3

Note : The components may not add up to the total due to rounding off.

Source: Swiss Re, Sigma No. 6/2001.

In India, the share of life insurance premium as a percentage of GDP, *i.e.*, insurance penetration, has increased steadily from 0.6 per cent in 1980-81 to 1.6 per cent in 2000-01 (Table 9). However, this is much lower as compared to that of the industrialised countries. The life fund³ as percentage of GDP increased from 4.6 per cent in 1980-81 to 8.9 per cent in 2000-01 reflecting an impressive performance of LIC in terms of generating premium and investment income in excess of its expenditures and claims. The life insurance density, *i.e.*, life insurance premiums per capita has steadily increased from Rs. 13.1 in 1980-81 to Rs. 334.8 in 2000-01. However, this is much lower in comparison with world standards. This again reveals the vast scope for life insurance penetration in India. The life fund per capita which was Rs. 97.4 in 1980-81 has increased more than eighteen fold to Rs. 1819.5 in 2000-01 reflecting the attractiveness of life insurance business.

Table 9 : Penetration of Life Insurance Business in India

Year	Premium Income (Rs. Crore)	Per cent to GDP (2.1)	Life Fund (Rs. Crore) (3)	Per cent to GDP (3.1)	Premium per capita (in Rs.) (4)	Life Fund Per capita (in Rs.) (5)
(1)	(2)	(2.1)	(3)	(3.1)	(4)	(5)
1980-81	888	0.6	6,614	4.6	13	97
1981-82	1,007	0.6	7,563	4.5	15	109
1982-83	1,109	0.6	8,632	4.6	16	122
1983-84	1,229	0.6	9,800	4.5	17	136
1984-85	1,405	0.6	11,191	4.6	19	151
1985-86	1,609	0.6	12,666	4.6	21	168
1986-87	1,885	0.6	14,502	4.7	24	188
1987-88	2,337	0.7	16,632	4.7	30	211
1988-89	2,938	0.7	19,569	4.6	37	243
1989-90	3,812	0.8	23,472	4.8	46	286
1990-91	4,777	0.8	28,401	5.0	57	339
1991-92	5,946	0.9	34,691	5.3	69	405
1992-93	7,146	1.0	40,998	5.5	82	470
1993-94	8,758	1.0	49,666	5.8	98	557
1994-95	10,385	1.0	59,979	5.9	114	659
1995-96	12,094	1.0	72,780	6.1	130	784

1996-97	14,500	1.1	87,760	6.4	153	928
1997-98	17,066	1.1	1,05,833	7.0	177	1,098
1998-99	20,234	1.2	1,27,389	7.3	206	1,296
1999-00	24,540	1.3	1,53,442	8.0	245	1,533
2000-01	34,118	1.6	1,85,407	8.9	335	1,820

Source: Annual Reports of Life Insurance Corporation of India.

In India, the share of gross and net insurance premiums for non-life insurance as a percentage of GDP, *i.e.*, non-life insurance penetration, have increased from 0.4 per cent and 0.3 per cent, respectively in 1980-81 to 0.5 per cent and 0.5 per cent in 2000-01 (Table 10). However, this compares quite unfavourably with that of the industrialised countries and other emerging markets in general. The non-life gross and net premiums per capita (non-life insurance density) have both steadily increased from Rs. 7.4 in 1980-81 to Rs. 105.7 in 2000-01 and from Rs. 7.1 to Rs. 100.8, respectively during the same period. However, this is much lower in comparison with world standards. This reveals the vast scope for non-life insurance penetration in India.

Table 10 : Penetration of General Insurance Business in India

Year	Gross Premium (Rs. Crore)	as % of GDP	Net Premium (Rs. Crore)	as % of GDP	Gross Premium Per capita (in Rs.)	Net Premium Per capita (in Rs.)
(1)	(2)	(2.1)	(3)	(3.1)	(4)	(5)
1980	503	0.4	481	0.3	7	7
1981	624	0.4	600	0.4	9	9
1982	761	0.4	725	0.4	11	10
1983	895	0.4	881	0.4	12	12
1984	1,035	0.4	1,031	0.4	14	14
1985	1,204	0.4	1,191	0.4	16	16
1986	1,423	0.5	1,366	0.4	18	18
1987	1,652	0.5	1,580	0.5	21	20
1988-89*	2,349	0.6	2,255	0.5	29	28
1989-90	2,279	0.5	2,186	0.5	28	27
1990-91	2,912	0.5	2,743	0.5	35	33
1991-92	3,503	0.5	3,450	0.5	41	40
1992-93	4,070	0.5	3,868	0.5	47	44
1993-94	4,766	0.6	4,427	0.5	53	50
1994-95	5,271	0.5	4,879	0.5	58	54
1995-96	6,377	0.5	5,956	0.5	69	64
1996-97	7,348	0.5	6,733	0.5	78	71
1997-98	8,086	0.5	7,357	0.5	84	76
1998-99	9,158	0.5	8,403	0.5	93	85
1999-00	9,982	0.5	9,364	0.5	100	94
2000-01	10,772	0.5	10,272	0.5	106	101

Note : Data upto 1987 are as at end December and * 15months for the remaining years data are as at end March.

Source: General Insurance Corporation of India.

Section VI Role of Insurance in Financial Saving and GDP

Insurance is an important financial saving instrument of the households. The saving component

of life insurance competes with the savings of the households in other financial instruments such as bank deposits, mutual funds and equities. The total life insurance in India comprises three components *viz.*, life insurance, postal and state insurance. The life insurance business is almost in the hands of the LIC. Its share ranged between 85 per cent and 95 per cent of the total insurance fund during 1980-81 through 2000-01. The share of insurance, which constitutes a significant part of gross financial savings of the household sector, has gone up from 7.6 per cent in 1980-81 to 12.8 per cent in 2000-01 (Chart 1 and Table 11). During the period 1991-92 to 2000-01, this share has remained above 10 per cent, barring the three years from 1992-93 to 1994-95. The average share of insurance in gross financial savings which was 7.6 per cent in the 1980s increased to 10.3 per cent in the 1990s. The share of insurance in GDP has shown a consistently rising trend and more than doubled from 0.7 per cent in 1980-81 to 1.6 per cent in 2000-01. The average share of insurance as a percentage of GDP increased from 0.8 per cent in the 1980s to 1.2 per cent in the 1990s.

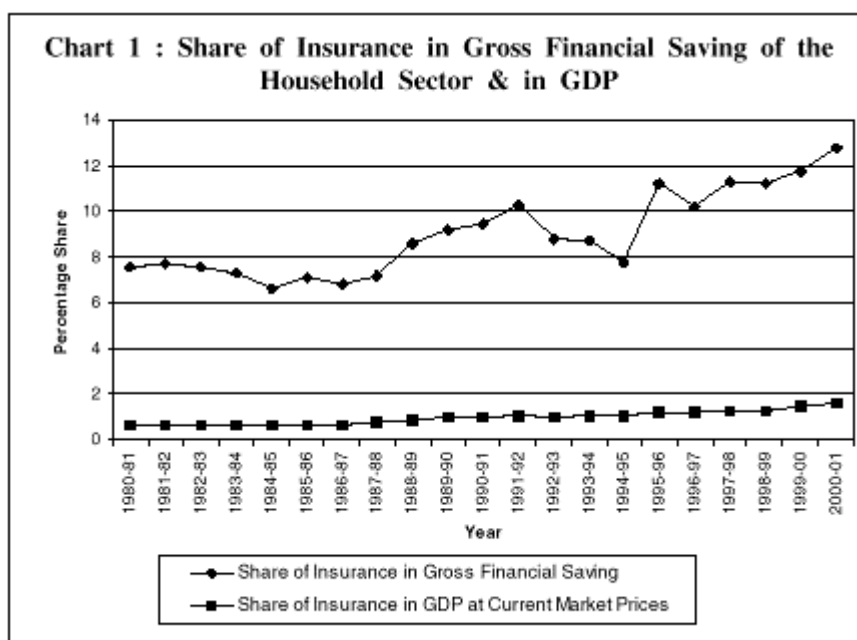


Table 11 : Financial Assets of the Household Sector : Insurance Funds

(Rs. Crore)

Year	Total Insurance Funds	Life	Postal	State	Gross Financial Saving	Share of Insurance in Gross Financial saving (%)	Share of Insurance in GDP (%)
(1)	(2)	(2.1)	(2.2)	(2.3)	(3)	(4)	(5)
1980-81	915	821	24	70	12,118	7.6	0.7
1981-82	1,048	944	28	76	13,618	7.7	0.7
1982-83	1,235	1,092	33	110	16,270	7.6	0.7
1983-84	1,376	1,221	33	122	18,738	7.3	0.7
1984-85	1,557	1,338	37	182	23,610	6.6	0.7
1985-86	1,802	1,522	49	231	25,541	7.1	0.7

1986-87	2,159	1,855	66	238	31,849	6.8	0.7
1987-88	2,589	2,196	74	319	36,106	7.2	0.8
1988-89	3,423	3,005	88	330	39,958	8.6	0.9
1989-90	4,415	3,984	109	322	48,233	9.2	1.0
1990-91	5,599	5,030	133	436	58,967	9.5	1.0
1991-92	7,003	6,388	165	450	68,136	10.3	1.1
1992-93	7,114	6,440	182	492	80,450	8.8	1.0
1993-94	9,548	8,784	222	542	1,09,597	8.7	1.1
1994-95	11,370	10,439	258	673	1,45,503	7.8	1.1
1995-96	13,894	12,934	324	636	1,24,339	11.2	1.2
1996-97	16,121	15,102	400	619	1,58,518	10.2	1.2
1997-98	19,410	18,194	458	758	1,71,740	11.3	1.3
1998-99	23,428	21,936	536	956	2,09,723	11.2	1.3
1999-00	28,644	26,894	667	1,083	2,43,287	11.8	1.5
2000-01P	34,064	32,218	592	1,254	2,65,134	12.8	1.6

P : Provisional Estimates.

Note : As the data on insurance funds and its break-up as per 1993-94 series are not available, the data used in this table upto 1992-93 are based on 1980-81 series. For the remaining years, data are based on 1993-94 series.

Source : Central Statistical Organisation.

The share of insurance in real GDP *i.e.*, insurance as a percentage of real GDP during the period 1981-82 to 2000-01 was below 1 per cent (Chart 1 and Table 12). The insurance sector has been only a marginal contributor to the country's GDP. This is despite the country's vast population and immense potential for growth of insurance. One of the reasons attributable to this could be the lack of effective competition due to the monopoly position enjoyed by the public sector. Opening up of the insurance sector may augur well for the growth in income from this sector.

Table 12 : Gross Domestic Product from Insurance (at factor cost at 1993-94 prices)

Year	GDP	Insurance	Insurance Growth	Insurance Life	(Rs. Crore)	
					as % of Non-life	GDP Total
1	2	3	4	5	6	7
1981-82	4,25,073	2,284	11.7	0.2	0.4	0.5
1982-83	4,38,079	2,510	9.9	0.2	0.4	0.6
1983-84	4,71,742	2,820	12.4	0.2	0.4	0.6
1984-85	4,92,077	2,680	-5.0	0.2	0.3	0.5
1985-86	5,13,990	3,074	14.7	0.2	0.4	0.6
1986-87	5,36,257	3,383	10.1	0.2	0.4	0.6
1987-88	5,56,778	3,199	-5.4	0.2	0.3	0.6
1988-89	6,15,098	3,275	2.4	0.2	0.3	0.5
1989-90	6,56,331	5,211	59.1	0.3	0.5	0.8
1990-91	6,92,871	4,034	-22.6	0.3	0.3	0.6
1991-92	7,01,863	5,477	35.8	0.3	0.5	0.8
1992-93	7,37,792	4,738	-13.5	0.3	0.3	0.6
1993-94	7,81,345	5,409	14.2	0.3	0.4	0.7
1994-95	8,38,031	3,736	-30.9	0.3	0.1	0.5
1995-96	8,99,563	4,973	33.1	0.3	0.2	0.6
1996-97	9,70,083	4,920	-1.1	0.3	0.2	0.5
1997-98	10,16,399	7,424	50.9	0.4	0.4	0.7
1998-99	10,82,472	7,979	7.5	0.4	0.4	0.7
1999-00	11,48,500	7,492	-6.1	0.4	0.2	0.7

2000-01	11,93,922	7,771	3.7	0.5	0.2	0.7
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Note : The components may not add up to the total due to rounding off.

Source : Central Statistical Organisation.

Section VII

Insurance Regulation in India

Insurance regulation in India started with the passage of the Life Insurance Companies Act, 1912 and the Provident Fund Act, 1912. The first comprehensive legislation was introduced with the Insurance Act, 1938 which provided strict State control over insurance business in the country under the supervision of the Controller of Insurance. Subsequently, the Insurance Act, 1950 was enacted to check malpractices in the insurance business and also to exercise more control over the operations of the insurance companies. With the nationalisation of the life insurance industry in 1956 and the general insurance industry in 1972, the role of the Controller of Insurance diminished over a period of time. On account of the monopoly status of the public sector units *viz.*, LIC and GIC in the area of insurance, prior to liberalisation of this sector, regulation was perceived to be of less interest due to the inbuilt procedures in place.

The phased globalisation of the Indian economy that started in the early 1990s began to have its impact on the monopolistic structure of the Indian insurance industry. Further, the liberalisation of insurance markets was among the objectives of the Uruguay round negotiations conducted under the auspices of General Agreement on Trade and Tariff (GATT). These negotiations included trade in services and insurance in the context of financial services (UNCTAD Report, January 1993). In 1993, the Government appointed a Committee headed by Shri R.N. Malhotra to examine the reforms required in the insurance sector. The Committee in its report submitted in 1994 recommended *inter alia* the opening up of the insurance sector to players other than State-Owned ones. These recommendations were accepted by the Government and the Insurance Regulatory and Development Authority (IRDA) Act, 1999, consequent amendments to the Insurance Act, 1938, Life Insurance Corporation Act, 1956 and the General Insurance Business Act, 1972 were passed in the year 2000, paving the way for opening up of the insurance sector.

The important functions of the IRDA as per the IRDA Act 1999, include the following:

- i) Licensing and regulating the insurance sector by acting as an independent and regulatory body.
- ii) Specifying requisite qualifications, code of conduct and practical training for insurance intermediaries and agents.
- iii) Protecting the interests of the policyholders in matters concerning assigning of policy, settlement of insurance claim *etc.*
- iv) Regulating investment of funds by insurance companies.
- v) Calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers and other organisations connected with the insurance business.
- vi) Regulating maintenance of margin of solvency of the insurer.
- vii) Adjudication of disputes between insurers and intermediaries or insurance intermediaries.
- viii) Supervising the functioning of the Tariff Advisory Committee.

ix) Promoting efficiency in the conduct of insurance business.

Efforts are underway to bring about internationalisation of regulations in the insurance sector on the lines of the banking sector so as to take care of development and health of the insurance sector. This concern had resulted into the establishment of International Association of Insurance Supervisors (IAIS), head quartered at Basle in Switzerland. More than 100 regulators of insurance industries worldwide are members of this Association and India is also one amongst them. The underlying objective of this organisation is to bring about a degree of standardisation in regulatory procedures adopted by different countries. The Advisory

Group on Insurance Regulation (Chairman: Shri R. Ramakrishnan) appointed by the Standing Committee on International Financial Standards and Codes (Chairman: Dr. Y.V. Reddy), stated that Indian insurance regulations are, by and large, in consonance with international standards.

Section VIII Concluding Observations

The insurance sector in India was hitherto the monopoly of the State. Though the performance of the public sector insurance companies - LIC and GIC was quite satisfactory, the Indian insurance business, both life and non-life, left much to be desired as compared to international standards. There is low penetration and general lack of efficiency. The per capita premiums are very low when compared to the standards of both industrialised countries and other emerging markets. With the entry of private players into the insurance business, it is expected that competition would increase and overall functioning of the insurance sector would improve. The liberalisation process initiated in the insurance sector is expected to bring about better integration of the financial markets and promote financial development of the country.

Insurance, apart from acting as an important financial instrument for risk cover, is also a major instrument for mobilisation of long-term savings. The savings part of insurance, if channelised efficiently into long-term investments, could play a greater role in funding infrastructure projects with long gestation periods. With increasing urbanisation and longer life expectancy, the demand for insurance is expected to increase substantially in the years to come. In the liberalised scenario, the Indian insurance regulator *i.e.*, IRDA will have to play a crucial role towards meeting the special needs and challenges of the Indian insurance market. The regulator, besides ensuring long-term solvency of insurers, should also promote competition among them. The development of the Indian insurance market into a healthy and vibrant one is expected to further aid in the economic and financial development of the country by acting as a mobiliser of savings and as a factor of production, besides playing the usual role of providing social security.

Notes

1. 154 Indian insurers, 16 non-Indian insurers and 75 provident societies.
2. Reinsurance operates on the same principle as that of insurance. It covers the risks of insurers by spreading the risk with as many insurers as possible.
3. Life fund of an insurance company is the excess of premiums and investment income over claims and expenses on its revenue and capital accounts. This fund is generally used for distribution to policy holders and also for adding to the reserves of the company.

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