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A Study Of “Trend Analysis In Insurance Sector In India”

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ABSTRACT

Insurance has a long history in India. Life Insurance in its current form was introduced in 1818 when Oriental Life Insurance Company began its operations in India. General insurance was however a comparatively late entrant in 1850 when Triton Insurance company set up its base in Kolkata. History of Insurance in India can be broadly bifurcated into three eras: a) Pre Nationalization b) Nationalization and c) Post Nationalization. Life Insurance was the first to be nationalized in 1956. General Insurance followed suit and was nationalized in 1973. General Insurance Corporation of India was set up as the controlling body with New India, United India, National and Oriental as its subsidiaries. The process of opening up the insurance sector was initiated against the background of Economic Reform process which commenced from 1991. For this purpose Malhotra Committee was formed during this year who submitted their report in 1994 and Insurance Regulatory Development Act (IRDA) was passed in 1999. Resultantly Indian Insurance was opened for private companies and Private Insurance Company effectively started operations from 2001. Insurance sector in India has become one of the most favored investment destinations both for Indians and NRIs. India is the fifth largest insurance market among the globally emerging insurance economies. Growing interest towards insurance among people, innovative products and distribution channels are sustaining the growth of the insurance sector.

KEY WORDS: *Insurance, Life insurance, Non-Life insurance, Nationalization, Trend analysis.*

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I. INTRODUCTION OF INSURANCE

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu **(Manusmrithi**), Yagnavalkya (**Dharmasastra***)* and Kautilya (**Arthasastra***)*. The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

1818 was the **advent of life insurance business in India** with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the **Madras Equitable** had begun transacting life insurance business in the Madras Presidency. 1870 was the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

In 1914, the Government of India started publishing returns of Insurance Companies in India. **The Indian Life Assurance Companies Act, 1912** was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

An Ordinance was issued on 19th January, **1956 nationalizing the Life Insurance sector** and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

The **history of general insurance dates** back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd was set up. This was the first company to transact all classes of general insurance business.

1957 was the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1972 with the passing of the General Insurance Business (Nationalization) Act, general insurance business was nationalized with effect from 1^{st} January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973.

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of **R N Malhotra, former Governor of RBI**, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies are allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

Following the recommendations of the **Malhotra Committee report**, in 1999, the **Insurance Regulatory and Development Authority (IRDA)** was constituted as an autonomous body to regulate and develop the insurance industry. **The IRDA was incorporated as a statutory body in April, 2000**. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

Today there are 24 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 23 life insurance companies operating in the country. The insurance sector is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

II. OBJECTIVES OF THE STUDY

- To understand the world insurance density, and relate it with India density.
- The study of premium trend analysis for understanding improvement of insurance in India.

TREND ANALYSIS OF LIFE AND NON-LIFE INSURANCE SECTOR IN INDIA

Study of international comparison of insurance density:

In the part of analysis of trend analysis of insurance sector in India we can study about what is our position in the international level in insurance sector for this type of analysis we can study the insurance destiny of various countries in the world. In this analysis we can study about the life insurance and Non-life insurance in the 22 countries in the world so this analysis can give the full information about insurance density across the world.

INTERNATIONAL COMPARISON OF INSURANCE DENSITY				
		2011-2012		
SL.NO	Name of the Country	LIFE INSURANCE	NON-LIFE INSURANCE	TOTAL
1	Australia	2077	2017	4094
2	Brazil	208	189	398
3	France	2638	1403	4041
4	Germany	1389	1578	2967
5	Russia	8	295	303
6	South Africa	823	215	1037
7	Switzerland	4421	3591	8012
8	United Kingdom	3347	1188	4535

9	U.S.A	1716	2130	3846
10	**Asian Countries**	-		
11	Bangladesh	5	2	7
12	Hong Kong	3442	462	3904
13	**India**	**49**	**10**	**59**
14	**Japan**	**4138**	**1031**	**5169**
15	Malaysia	328	175	502
16	Pakistan	4	4	8
17	China	99	64	163
18	Singapore	2296	810	3106
19	South Korea	1615	1045	2661
20	Srilankha	15	18	33
21	Taiwan	2757	614	3371
22	Thailand	134	88	222
23	**WORLD**	**378**	**283**	**661**

Note: Source date from IRDA

Interpretation:

From the above table we can understand how much India is lacking behind in insurance sector in the world. So in insurance sector India need to develop and concentrate on insurance sector to develop the country economy. Developed countries like Japan, Switzerland, United Kingdom, Hong Kong countries their economy system is mostly influenced by insurance sector so the insurance density is high in those countries. So the density of insurance sector is to cover the risk coverage in the life of country people. In the above table Japan is having highest density in the world and the Pakistan is having lowest density in the world. India is having 59 density across the world. So India needs to improve the density in insurance sector to improve the country economic position.

The Japan is having high insurance density, frequently Japan has faced different type of disasters like Earth-quacks, Tsunamis. That country people have coverage risk benefits as they have insure their property and lives. The country is facing so many effects and still it is continuing as developed country, by this we can say that insurance sector will play key role in country economic system.

III. TREND ANALYSIS

METHODOLOGY:

Today, trend analysis often refers to the science of studying changes in social patterns, including fashion, technology, and consumer behavior. Trend Analysis is the practice of collecting information and attempting to spot a pattern, or *trend*, in some fields of study, the term "trend analysis".

The trend analysis is used for comparing one year with other year. In the below table we have taken 11 years to compare, how it can increase or decrease in trend percentages. This method is suitable to compare at a time with different years. And also it is easy to understand and easy to calculate. In below table I have taken 2002 as the base year to calculate trend percentages. The reason to take 2002 is as base year is as in this year, few companies have entered into General insurance and also some companies started Life insurance.

Formula for trend percentages: $\frac{\text{PRESENT YEAR}}{\text{BASE YEAR}} *100$

Trend Analysis of life and Non-life insurance premium (Corers)

TOTAL INSURANCE PREMIUM					
SL NO	YEARS	LIFE INSURANCE	NON-LIFE INSURANCE	TOTAL	TREND %
1	2002	50094.46	12385.24	62479.7	100
2	2003	55747.55	14870.25	70617.8	113.03
3	2004	66653.75	16542.49	83196.24	113.15
4	2005	82854.8	18456.45	101311.25	162.15
5	2006	105875.76	21339.1	127214.86	209.69
6	2007	166075.84	25930.02	192005.86	307.3
7	2008	201351.41	28805.6	230157.01	368.37
8	2009	221785.47	31428.4	253213.87	405.27
9	2010	265447.25	35815.85	301263.1	482.17
10	2011	291638.64	43841.84	335480.48	536.94
11	2012	287072.11	54578.49	341650.6	546.81

Note: Data source from IRDA

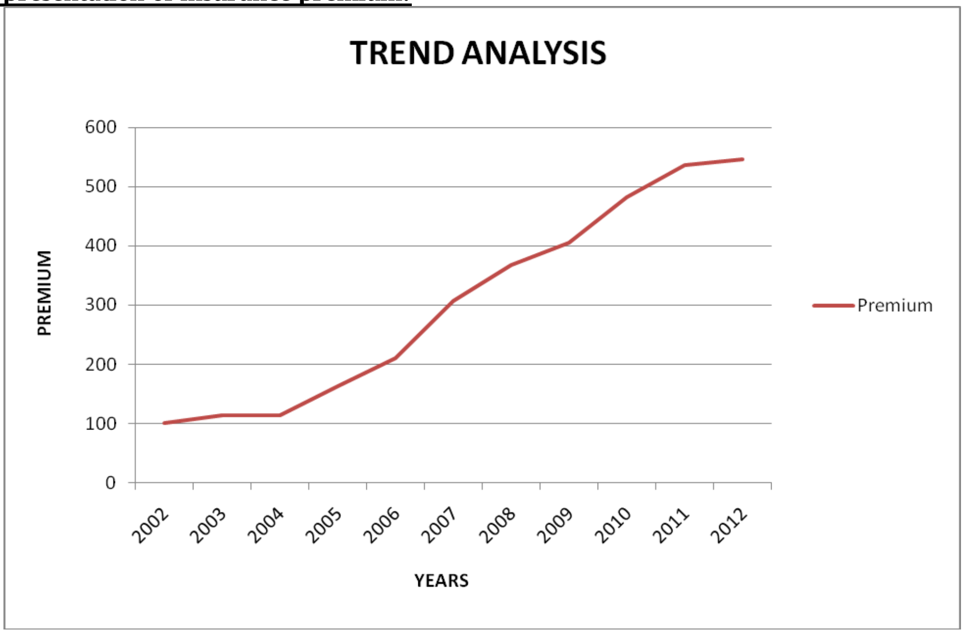
INTERPRETATION:

In the above table we can observe how the insurance premium is increasing year to year. In 2002 there were only few companies in the Insurance market, before 1999 the LIC was only insurance company and it's the regulatory body in India.

- The trend percentages from 2002 to 2012 it almost increases 5 times, it indicates the good growth rate. The improvement of premium is indicating how many people were insure, impact of this leads to improvement in the economy growth rate which is most important for developing countries like India.

- In India first Life insurance started so the life insurance premium is more than Non-Life insurance. The Life insurance premium is improved from 2002 to 2012 near to 6 times. It's good revelation in this deceit.
- Private Non-Life insurance is started after IRDA is incorporated in 2000. Now in India 24 general insurance companies are in the Indian market. In 2002 to 2012 it's improved 5times.
- Private insurance companies entered in to market after IRDA is incorporated with this effect more improvements is taken place in Indian insurance sector.

Graphical presentation of insurance premium:



INTERPRETATION:

In the above graph we can understand how premium curve is increasing. It is slidely increasing from 2002 to 2012, it indicate to record increasing growth rate through the better analysis how the curve is going and it is started with 100 points and it reaches to 550 points. Through this analysis we can conclude insurance premium have good improvement.

Reasons for Failure in Insurance Sector in India:

1. In India many people were illiterates so they don't know about insurance benefits and they don't know what are the existing insurance policies which were giving more benefits.
2. In India more than 45% people were living below poverty line and they could not even thing about the insurances.
3. In the initial stages there was a rumor that insurance is a death policy and it can be claimed only after the death so no one showed interest in insurance.
4. In the beginning stages of insurance there was less awareness about insurance policies.
5. Because of less disaster in India compared to japan, so it can be the reason why people showed less interest to insure their life and properties.
6. India is developing country so if compared to Japan, USA, and UK we have less density in insurance sector.
7. The insurance agents are not succeeding to that extent in motiving the people about insurances and insurance policies.

8. Still many business organizations and manufacture organizations are not showing interest to insure their property.
9. Claim settlement is also one of the back drop (late process in climes).

Role of Insurance in India's future:

- Insurance would assist business to operate with less volatility and risk of failure and provide for greater financial and societal stability from the growth pangs of an estimated growth rate over 8% in GDP.
- Government has arranged for disaster management and for funds. NGO's and public institution assists with fund raising and relief assistance. Beside government provides for social security programs. There is considerable impact upon government in these respects. Insurance substantially steps in to provide these services. The effect would be to reduce the strain on the tax payers and assist in efficient allocation of societal resources.
- Facilitates track, business and commerce by flexible adaptation to changing risk needs particularly of the burgeoning services sector.
- Like any other financial institution insurance companies generate saving from the insurance sector. Within the economy and make available the same in well directed areas of the economy deserving investment, a sector with potential for business as is the case with Indian insurance provides incentive to develop it all the more faster.
- It enable risk to be managed more efficiently through risk pricing and risk transfer and this is an area which provides unlimited opportunities in the Indian context for consulting, broking and education in the post privatization phase with newer employment opportunities.
- The insurance industry on its own accord is interested in loss minimization. It's expertise in understanding losses assists it to share the experience across the economy thus enabling better loss control and preservation of national assets.
- In its risk pricing and investment decisions the insurance industry sets the tone for investment by others in the economy. Informed assessment by the insurance companies thus, signals allocation of resources by others contributing to efficiency in allocation. In India visibility of L.I.C. and G.I.C. has been dwarfed by government's actions and other high profile institutions like I.C.I.C.I., I.D.B.I., and U.T.I. Of late A.I.G. is visible in the media and its investment announcements are being followed keenly by institutional investors in India. I.N.G. saving trust and Zurich are active in asset management and are being keenly followed by retail investors.

CONCLUSION

In this study we can conclude that Indian insurance sector is having increasing growth rate. From the above trend analysis we can observe that trend percentages are increasing, so we can conclude it is improving year to year and it is so sad to say that still India has less density percentage in the world wide when compared, it might be the reasons we discuss above. Now India is also improving it density percentages year to year. So let us hope better that India can also improve in insurance sector.