

## Penetration of Life Insurance Sector in India

**Dr. Garima Saxena**

Associate Professor & Research Guide,  
University of Rajasthan, Rajasthan, India

**Priyanka Sharma**

Research Scholar,  
University of Rajasthan, Rajasthan, India

### Abstract:

**I**ndia has a very basic social security system catering to a fairly small percentage of the country's workforce. Traditionally, Indians relied on their extended families for support in the event of illness or other misfortunes. However, due to migration, urbanization, and higher social mobility, family bonds are less tight and family units much smaller than they used to be. So far, neither the state nor private insurance companies have quite stepped up to fill this gap. The need for greater insurance penetration in both life and non-life segments has been underscored by the economic survey. The survey points out that the entry of insurance in the country remains significantly lower than its Asian peers also. India currently accounts for less than 1.5 per cent of the world's total insurance premiums and about 2 per cent of the world's life insurance premiums despite being the second most populous nation. Major portion of Indian population is working in unorganized sector thus it becomes very essential to take care of their future needs and to provide for the formal schemes relating to the financial security. People are not aware about their financial planning so even insured population is underinsured. In the Financial year 2014, India ranked 11<sup>th</sup> among 88 countries contributing to only 2.0% in life insurance sector. Even though the penetration is increasing but due to lack of knowledge and awareness among Indians, there is still a huge scope of this sector.

**Keywords:** Awareness, Social Security, Unorganized sector, Penetration of life insurance sector, Financial Planning.

### I. INTRODUCTION

In India, there are no adequate policies to take care of the basic needs of the population and to provide for their safety and security. Traditionally, in Indian society the members of the family were dependent on each other in the event of any illness, accident or misfortune. Indian scenario is changing fast with increasing migration, urbanization and mobility of the people due to which family units are becoming smaller. Earlier the majority of family units were joint, living together so they were dependent on each other especially in case of some financial needs. But India is changing both demographically and culturally, nuclear families are increasing, life style of families and their financial needs for education and other occasions are increasing. Hence, a strong need for financial security in the society is required. Thus it becomes essential for the families to mitigate the risk by achieving financial self reliance by purchasing savings, investment and retirement plans from life insurance companies. Life insurance sector thus has a substantial role to play in the current scenario leading to educating the masses especially of rural area for creating financial independency.

### II. REVIEW OF LITERATURE

Sudarsan Reddy, Mohan Reddy and Sivarami Reddy (2004) in their study "Liberalization of Insurance: Opportunities and Challenges", observe that in liberalized environment, nationalized insurance companies will continue to maintain their dominant position in the market, at least in the foreseeable future. However given the enormous potential of the Indian market, it is for the insurers to come out with new products, better packaging and improved customer service. Product innovation and channel diversification will gain momentum, in line with global trend of financial service convergence.

Bhattacharya (2005) advocated that bancassurance provided the best opportunities to tap the large potential in rural and semi urban areas as banks have a strong network of more than 40000 branches in these areas. He suggested that the insurers should focus on Single Premium policies, Unit Linked Insurance, Pension Market and Health Insurance.

Kulshrestha and Kulshrestha (2006) highlighted that demand for life insurance in rural India was expanding at the annual rate of 18 per cent as compared to 3.9 per cent in urban areas which provided good opportunity for life insurers to perform.

Ramana (2007) in his article "Globalization: Impact on Insurance" says that while joint ventures or alliances of foreign companies with local and domestic firms is the only permissible route of entering into insurance markets of India and China. He observes that the entry of foreign players into insurance business in the new environment cannot be blocked but they can be controlled and supervised. They try to increase their market share by penetrating into new geographical markets/areas with suitable market strategies under the given regulatory and other socio-political conditions.

Girish kumar and eldhose (2008), published in insurance chronicle ICFAI monthly magazine august 2008 in their paper titled "customer perception on life insurance services: a comparative study of public and private sectors", well explained the importance of quality services and its significance in raising customer satisfaction level. A comparative study of public and private sectors help in understanding the customer perception, satisfaction and awareness on various life insurance services.

The above studies show the changing trends in Life Insurance sector since liberalization, and the impact of globalization on insurance. Life insurance is yet to develop and penetrate in Indian market. Even though with liberalization, globalization and privatization life insurance industry is increasing its reach. The study reveals huge scope and creating of awareness about the sector among masses especially the rural people.

### III. OBJECTIVE OF THE STUDY

The study focuses on the awareness and penetration of life insurance sector in Indian society and also its density. It also suggests some measures to increase the penetration and density of life insurance sector to create social security in Indian population.

### IV. RESEARCH METHODOLOGY

The study is based on secondary data collected from various sources especially from journal, articles and IRDA reports. Various websites have also been studied to conduct the study.

#### Insurance Penetration in India

Insurance penetration calculates the growth of life insurance premiums vis-a-vis the growth of the gross domestic product (GDP) in the economy, and shows the level of development of the insurance sector in a country. The total insurance premiums in a country measured as a percentage of the country's GDP define its insurance penetration.

Year	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Penetration (%)	3.17	3.4	4.8	4.7	4.6	5.2	5.1	4.1	3.96	3.9	3.3	3.4

Source: Insurance Regulatory and Development Authority (IRDA), TechSci Research

The figure reflects slow penetration of Insurance sector in the country, we can see in the FY12 the figure has decreased to 4.1 from 5.1 and a slow penetration thereafter.

#### Insurance Density in India

Insurance density is the measure of insurance development is per capita spending on insurance; it is calculated as the ratio of total premium to the population (per capita premium). By this measure, India is among the lowest-spending nations in Asia in respect of purchasing insurance. High growth rate of population is one of the important factors that have been slowing down insurance density.

Year	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Density (USD)	3.57	4.14	5.13	6.4	6.09	6.8	8.6	10.23	10.38	10.35	11.23

Source: Insurance Regulatory and Development Authority (IRDA), TechSci Research

The figures reveal that the spending has increased from FY05 to FY15 but still it's one of the slowest even in Asian nations so there lies huge scope for the same.

Before 1956, the life insurance sector was made up of 154 domestic life insurers, 16 foreign life insurers and 75 provident funds. In 1956, all life insurance companies were nationalized to form LIC to increase penetration and protect policy holders from mismanagement. But with the recommendation of Malhotra Committee the insurance sector was opened up for private players. IRDA, LIC and GIC Acts were passed in 1999, making IRDA the statutory regulatory body for insurance and ending the monopoly of LIC. Post liberalization, the insurance industry recorded growth.

With privatization, liberalization and globalization the competition increased leading to product innovation, better distribution channels, coupled with targeted publicity and promotional campaigns by the insurance companies. The contribution of insurance to an economy's growth and efficiency is not the only entry point into its role in development. The contribution of insurance to poverty alleviation and the welfare of the poor is also potentially of considerable importance, although the quantitative evidence on this point is not on very firm grounding.

Even though for years the Indian society has seen very weak social security of Indian population, the present Prime Minister Shri Narendra Modi has launched three new social security schemes (PM Bima Yojana).

Present government schemes (2 insurance products & 1 pension scheme) is aimed at the unorganized sector and economically weaker sections of the society, though, benefits of the scheme can be availed by any strata of the society. It has launched Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), which is beneficial life insurance plan, wherein the insured receives Rs 2 Lakh cover against an annual premium of Rs 330, each year.

One more plan Pradhan Mantri Suraksha Bima Yojana (PMSBY) offers 1-year accidental death and disability cover worth Rs 2 Lakh for an annual premium of Rs 12. Under the disability cover, insured will receive Rs 1 Lakh. This is a yearly renewable scheme and can continue to give benefits as long as the insurer desires.

On the other hand, Atal Pension Yojana (APY) is a pension scheme targeted at people in the unorganized sector. The scheme is applicable to subscribers aged 18 to 40 years, with valid bank accounts. The scheme aims to benefit people who do not have a social security or who do not fall under the income tax bracket.

## V. CONCLUSION

Few measures have being taken to improve the social security of Indians but with a population of 1.34 billion (as on May 10, 2017) there is huge gap between insurable population and insured population. And also most of the insured population are underinsured, thus it is required on the part of life insurance companies to bring awareness among masses. Government as well as life insurance companies should take necessary steps to educate the people about its importance, especially in rural areas. They should also help the people get proper documentation for purchasing life insurance. Use of internet and online transactions should be encouraged and proper training to customers in this regard should be provided. Innovative products especially with small savings should be initiated and distribution channel should be strengthened, especially for rural areas for e.g. stalls, canopies in rural fairs. The life insurance industry has the potential to grow 2-2.5 times by 2020 in spite of multiple challenges supported by long-term trends and fundamentals underlying household savings.

## REFERENCES

- [1] Bhattacharya, Anbil “Challenges before Life Insurance Industry”, Life Insurance Today, 1 ( 8): 3-6, 2005.
- [2] Chakraborty, Joy. “Private Life Insurance Companies in India – Growing Prospects and Challenges”, Insurance Chronicle: 29-39, 2007.
- [3] Kaur Jaspreet , Insurance Penetration And Density In India ; International Journal Of Business Management, VOL. 2(1),2015.
- [4] Yadav Babita, Tiwari Anshuja , A Study On Factors Affecting Customers Investment Towards Life Insurance Policies; International Journal Of Marketing, Financial Services & Management Research Vol.1 Issue 7, July 2012
- [5] Sharma Santosh , Assessment of Life Insurance Corporation in Indian Economy; International Journal of Education and Science Research Review E-ISSN 2348-6457 Volume-2, Issue-1 February- 2015 P-ISSN 2348-1817 [www.ijesrr.org](http://www.ijesrr.org)
- [6] Srivastava D.C. and Sashanka Srivastava, Indian Insurance Industry – Transition and Prospects, New Century Publications,2001.
- [7] <https://www.policybazaar.com/life-insurance/general-info/news/modi-government-launches-3-social-security-schemes/>
- [8] <https://www.ibef.org/industry/insurance-sector-india.aspx>
- [9] <https://www.iciciprulife.com/insurance-library/insurance-basics/benefits-of-life-insurance.html>
- [10] <http://www.bupa.com.au/life-insurance/why-life-insurance-is-important/>
- [11] <http://timesofindia.indiatimes.com/business/india-business/Insurance-penetration-in-India-at-3-9-percent-below-world-average/articleshow/46518607.cms>
- [12] <http://timesofindia.indiatimes.com/business/india-business/insurance-penetration-in-india-likely-to-cross-4-this-year-assochoam/articleshow/57168878.cms>
- [13] <https://www.slideshare.net/SudiptaDas37/penetration-of-life-insurance-and-general-insurance-in-india>
- [14] <https://www.bankbazaar.com/life-insurance-news.html>
- [15] <http://economictimes.indiatimes.com/topic/Life-Insurance/news>