

# Insurance Penetration and Insurance Density in India – An Analysis

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## ABSTRACT

*Insurance industry provides enormous opportunities to the domestic as well as foreign investors. India is the fifth largest life insurance market among the emerging economies with a yearly growth of 32-34%. This remarkable development in the insurance market attracted foreign players to India. The present study mainly focused on two parameters which assess the potential and development of Insurance sector viz., Insurance Penetration and Insurance Density. Insurance penetration is defined as ratio of premium underwritten in a given year to the Gross Domestic Product (GDP). The insurance density is the ratio of premium underwritten in a given year to the total number of population. The study is fully based on secondary data collected from the annual report of IRDA for a period of 7 years from 2010 to 2017. The penetration and density is separately presented for life, non-life and industry. Mean, Median, Standard Deviation, Variance and ANOVA were utilized for the purpose of analysis. The study found that there is an increase in the density and penetration of insurance industry in India. Among the three groups the industry is having high mean and standard deviation than life and non-life sector. The ANOVA result also reveals that there is significant difference in the mean values of insurance density and penetration among life, non-life and industry.*

**Keywords:** Inclusive Insurance, Insurance Penetration, Insurance Density, IRDA, Underwriter, GDP.

## 1. INTRODUCTION

Insurance is a means of protection from financial loss and it is compensation for the loss occurred. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss. An entity which provides insurance is known as an insurer, insurance company, insurance carrier or underwriter. A person or entity entering into a contract with an insurance company for buying insurance is known as an insured or a policyholder. The insurer agrees to compensate the insured in the event of a covered loss in an exchange for a periodical payment of a sum of money called premium. The loss may or may not be financial, but it must be reducible to financial terms, and usually involves something in which the insured has an insurable interest established by ownership, possession, or pre-existing relationship. In the present paper has made an attempt to analyse the growth of the life and non-life insurance business in our country during the current deregulation period, by taking two parameters namely insurance density and insurance penetration in India.

Insurance affects in the economic development of a country positively. As an economy develops over the years, the insurance business starts making inroads into the various sectors of economic activity in the country. The term 'insurance' has both financial and legal interpretations. The financial interpretation focuses on an arrangement that redistributes the cost of unexpected losses. It is the collection of small premium payments from all the suspected and distribute it to those suffering actual losses. The legal definition focuses on the contractual arrangement whereby one party agrees to compensate the loss of other party. Thus the financial definition provides for the funding of the losses whereas the legal definition provides for the legally enforceable contract that spells out the legal rights, duties and obligations of all the parties to contract.

India is ranked 8<sup>th</sup> among the top 20 life insurance markets globally by premium volume in 2016, and it is projected that India will be ranking 6<sup>th</sup> by 2021. In non-life insurance market India is ranked 18<sup>th</sup> among the top 20 non-life insurance markets globally by premium volume in 2016, and it is projected that India will be ranked 15<sup>th</sup> by 2021 (**Swiss Re, Sigma's report, 2016**).

The Indian Insurance companies play a pivotal role in the financial sector of the country. This is evident from the fact that Life Insurance Fund's Contribution towards the total household financial assets in the country has increased from 13.7% in 2000 - 01 to 24.2% in 2010-11 and 31% in 2016-17 (**Sankaramuthukumar S, 2012**).

There are 62 insurance companies operating in India. Out of which, 24 are life insurers, 23 are general insurers, 6 are health insurers exclusively doing health insurance business and 9 are re-insurers including foreign re-insurers branches and Lloyd's India (**Annual Report, IRDA, 2017**).

India's insurance penetration was 2.71% in 2001, when the world average was 7.83%. This gap has narrowed in 2009, i.e. India's insurance penetration is 5.1% when the world average is 6.9%. Life Insurance Penetration in India has more than doubled during 2001-2009, i.e. from 2.15% in 2001 to 4.4% in 2010. This tremendous growth has also helped India to surpass the world average in 2010 (**IRDA Annual report, 2011**). However, it is interesting to note that India's Life Insurance Penetration (2.15) was well below the world average of 4.68 in 2001. The non-life insurance penetration in India is well below the world average during 2001 and 2010. The growth is just from 0.56 in 2001 to 0.71 in 2010 (**Sankaramuthukumar S, 2012**). Thus, one could establish the supremacy of life insurance sector in India with regard to the life insurance penetration during 2001 and 2010. In this context this paper analyses the trends in Insurance Penetration and Density during 2010 – 2017.

## 2. REVIEW OF LITERATURE

Sankaramuthukumar and Alamelu (2011), in their paper entitled "Insurance Inclusion Index: A State-wise Analysis in India", suggested that the measurement of financial services such as banking insurance microfinance institution, co-operative, payment and remittance must be developed to check the financial inclusion target and achievement in the country.

SusyCheston (2018), in their study entitled "Inclusive Insurance: Closing the Protection Gap for Emerging Customers" stated that emerging consumers present a promising market for insurance, and creative insurance companies have designed innovative products to reach these markets. Micro-insurance has become the tool of penetrating into the under insured sections of the society and new business model are evolved for serving low income people in emerging markets.

GomathyThyagarajanand JyothiNair (2016), in their study entitled "Financial Inclusion In India – A Review" highlighted that financial inclusion is the process of ensuring access to financial services and timely and adequate credit to less privileged sections of the society at an affordable cost. Financial Literacy and financial inclusion have been important policy aspiration of India for quite some time. Regardless of policy measures and technological improvement adopted by RBI and banking sector, the extent and penetration of financial products and services to marginalized sections of the society, the figures are not encouraging. The policymakers have chalked at ambitious plans for financial inclusion with the hope that financial inclusion is the fulcrum of financial development.

Sankaramuthukumar S (2012), in his thesis entitled "Financial Inclusion: A Study with reference to Indian Life Insurance Sector", concluded that the importance of life insurance sector is a component of financial inclusion in India. CRISIL has to develop an index for financial inclusion and to look into operational nature.

Alamelu K (2011), in her article entitled "Evaluation of Financial Soundness of Life Insurance Companies in India", highlighted that in order to sustain public confidence, insurance companies need to maintain financial creditability intact. It is also stated that strong financial background enables insurance companies to augment the business.

## 3. HYPOTHESES

The study based on following hypotheses

**H<sub>0</sub>**: There is no significant difference in the mean value of Life, Non-life, and Industry.

**H<sub>1</sub>**: There is significant difference in the mean value of Life, Non-life, and Industry.

## 4. METHODOLOGY

The present study is purely based on the secondary data. Data has been collected from journals, articles, newsletter of Insurance Institute of India and IRDA annual reports. The study period is 2010-2017, as number of studies have identified Insurance Penetration and Insurance Density upto the year 2009. Simple statistical and arithmetical tools like Mean, Median, Standard Deviation, Variance and ANOVA have been used in data analysis. The potential and performance of the insurance sector is universally assessed in the context of two parameters, viz., Insurance penetration and Insurance density. Insurance penetration is the ratio of premium underwritten in a given year to the Gross Domestic Product (GDP) and insurance density is the ratio of premium underwritten in a given year to the total population.

## 5. DATA ANALYSIS AND INTERPRETATION

### 5.1 EVALUATION OF GROWTH OF INSURANCE DENSITY AND INSURANCE PENETRATION IN INDIA:

The measure of Insurance Penetration and Insurance Density are the important yardsticks of insurance development in an economy. Table 1 shows the data in respect of Insurance Density and Insurance Penetration incidental to life insurance and non-life insurance separately and incidental to insurance

industry (i.e. incidental to life insurance plus non-life insurance combined) for the period from 2010-11 to 2016-17, along with computed values of Mean, Median, Standard Deviation, and Variance.

**5.2 INSURANCE PENETRATION AND DENSITY IN INDIA**

**Table 1**  
**Insurance Penetration and Density in India**

Year	Life		Non-Life		Industry	
	Density (USD)	Penetration (percentage)	Density (USD)	Penetration (percentage)	Density (USD)	Penetration (percentage)
2009-10	47.70	4.60	6.70	0.60	54.30	5.20
2010-11	55.70	4.40	8.70	0.71	64.40	5.10
2011-12	49.00	3.40	10.00	0.70	59.00	4.10
2012-13	42.70	3.17	10.50	0.78	53.20	3.96
2013-14	41.00	3.10	11.00	0.80	52.00	3.90
2014-15	44.00	2.60	11.00	0.70	55.00	3.30
2015-16	43.20	2.72	11.50	0.72	54.70	3.44
2016-17	46.50	2.72	13.20	0.77	59.70	3.49
<b>Mean</b>	<b>46.2250</b>	<b>3.338</b>	<b>10.325</b>	<b>0.72</b>	<b>56.5375</b>	<b>4.06125</b>
<b>Median</b>	<b>45.25</b>	<b>3.135</b>	<b>10.75</b>	<b>0.715</b>	<b>0.715</b>	<b>3.93</b>
<b>Variance</b>	<b>21.936</b>	<b>0.588</b>	<b>3.78</b>	<b>0.0039</b>	<b>17.194</b>	<b>0.529</b>
<b>Std. Dev.</b>	<b>4.68</b>	<b>0.7669</b>	<b>1.94</b>	<b>0.0629</b>	<b>4.14675</b>	<b>0.7275</b>

Source: IRDA Annual Report 2016-17

- \* Insurance Density is = Insurance Premium / Total Population
- \* Insurance Density is = Insurance Premium / GDP.

During the year 2011 the life insurance density is 55.70 USD it was declined to 46.50 USD in the year 2017. The other inferences of Table 1 are:

- \* During the year 2010 the insurance penetration is 4.60 per cent which declined to 2.72 per cent in the year 2017.
- \* During the year 2011 the Industry density is 64.40 USD which declined to 59.70 USD in the year 2017.
- \* During the year 2010 the insurance penetration is 5.20 per cent which declined to 3.49 per cent in the year 2017.

**Table 2**  
**Variance in Insurance Density**

Particulars	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	9415.341	2	4707.670	329.110	0.000
Within Groups	300.389	21	14.304		
<b>Total</b>	<b>9715.730</b>	<b>23</b>			

Source: Researcher's Computation

**Interpretation:**

Table 2 indicates that there is significant difference in the mean values of insurance density among Life Insurance companies, Non-Life Insurance companies, and Industry as a whole. The higher level of mean value is for entire Industry and the lowest level of mean value is for Non-Life Insurance (Table 1).

**Table 3**  
**Variance in Insurance Penetration**

Particulars	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	49.371	2	24.685	66.031	0.000
Within Groups	7.851	21	0.374		
<b>Total</b>	<b>57.221</b>	<b>23</b>			

Source: Researcher's Computation

**Interpretation:**

Table 3 shows that there is significant difference in the mean values of insurance penetration among Life Insurance Companies, Non-Life Insurance companies, and Industry. The p- value is 0.000 which is significant at 5% level and support the findings.

**6.SUGGESTIONS**

In India, the society's perception on life insurance must be changed. For instance, insurance is sold just as savings but not as protection. Pure Protective Policies or Term Insurance Policies are gaining momentum through the innovative advertisements by the private life insurers. Moreover, these term insurance policies are being sold online by majority of the private life insurers. Thus, the public sector giant LIC of India must introduce online term insurance policies, which will increase life insurance penetration and density.

Bancassurance is already a well established channel of distribution, but still its achievement is far from other Asian countries. For instance, Bancassurance contributes just 8% of total new life insurance premium during 2016 in India, however in Malaysia it is 49% in China it is 64% and in Singapore it is 27%.

Life insurers in India should strengthen their Bancassurance models to increase the life insurance premiums, which in turn will help the country to achieve greater life insurance penetration and density.

The life insurers must evolve alternative models of distribution of these policies in rural and backward areas of the country. In this regard, the researcher introduces 'post assurance' concept.

Though the postal insurance is in operation, its reach is very poor among the general public. Thus, it is recommended that the private life insurers must enter into partnership ventures with department of posts to distribute their policies so as to reach the rural masses.

The low inclination for life insurance is not necessarily because of considerations of affordability or because of not enough range of insurance products and services, but the major influential factor is lack of consciousness of life insurance. Thus, it is recommended that IRDA in coordination with all life insurers must launch awareness movement through various suitable people-oriented programmes through, corporate publicity, awareness camps in rural centres and communication through mass media.

**7. CONCLUSION**

The life insurance companies in India are active in new product development and in marketing areas. But, they need to penetrate into rural areas in a big way since huge market potential lies in rural India. A good performance of life insurance companies in India will result in the growth of the life insurance market in India. And the growth of the life insurance market can be viewed as safe and secured Indians and thus safe and secured India.

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