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A STUDY OF INSURANCE PENETRATION AND DENSITY IN INDIA

Jyoti Yadav [1], Dr. Pratibha Rani Yadav [2]

[1] Research Scholar in Commerce Government P.G. College, Noida, India
[2] Assistant Professor, Department of Commerce, Government P.G. College, Noida, India

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ABSTRACT

Insurance serves as a mechanism to mitigate and transfer potential financial risks to an insurance company through the payment of a premium. In India, prior to liberalization, the life insurance sector was monopolized by a single company under the Public Sector ownership. However, following the liberalization in 1999, the market witnessed the emergence of 23 private life insurers, either in collaboration with or without foreign companies. These new players aimed to assume the risk of citizens and provide improved service quality, commencing their business operations from 2000-01 onwards, effectively breaking the monopoly of Life Insurance Corporation of India (LIC). The purpose of this paper is to assess the business performance of LIC and delineate on the insurance penetration and density in India, from 2000-01 to 2021-22, encompassing the significant period of changes and developments in the Indian life insurance sector.

Keywords: LIC, Private Players, Density of Insurance in India, Penetration of Insurance in India, Etc.

1. INTRODUCTION

Insurance serves as a crucial social mechanism embraced by civilized societies to minimize the impact of potential income losses due to unforeseen events. Its roots can be traced back to ancient times, with evidence found in historical texts like Manusmriti, Yagnavalkya, and Kautilya's Arthashastra, indicating the existence of insurance practices. In ancient India, the earliest forms of insurance were seen in marine trade loans and carriers' contracts. Over time, insurance in India evolved, drawing heavily from other countries, notably England. Since the 18th century, the concept of insurance, built on solidarity, business acumen, and logical calculations, has proven to be an exceptionally successful business idea, spreading globally through trade and emigration.

Though the modern concept of insurance mainly developed during the industrial era, the instinct to secure oneself against loss and disaster has always been present, even among early societies. The primitive men, too, sought protection from risks like fire, flood, and loss of life and were willing to make sacrifices to achieve security.

2. NEED FOR THE STUDY

There is no exaggeration in putting forward that Life Insurance sector of India is one of the fastest growing sectors in India not only at the level of national economy but on the parameters of international economy as well, given the sheer number of insurance policies it provides. However, it has yet to cover a huge population under insurance cover and provide insurance to life and assets of Indian population. In this regard it is imperative to take a stock of insurance penetration and density in India.

3. HISTORICAL BACKGROUND

The establishment of life insurance in its modern format in India began in 1818 when the Oriental Life Insurance Company was founded in Calcutta, although it faced failure in 1834. Subsequently, in 1829, the Madras Equitable initiated life insurance business in the Madras Presidency. In 1870, the British Insurance Act was introduced in India. In the late

19th century, the Bombay Mutual (1871), Oriental (1874), and Empire of India (1897) were established in the Bombay Residency. However, during this period, foreign insurance offices dominated the Indian market, which charged exorbitant premiums, making insurance unaffordable for many Indians.

It was only in 1870 that the first Indian life insurance company, Bombay Mutual Life Assurance Society, was established to provide coverage at reasonable rates. To regulate the insurance industry, the Life Insurance Companies Act and the Provident Fund Act were passed in 1912. The act mandated that premium rate tables and company valuations should be certified by actuaries. Nevertheless, disparities persisted as there was discrimination between Indian and foreign insurance companies.

In response, the Indian Insurance Companies Act of 1928 was enacted, empowering the government to collect statistical information about life and non-life business conducted in India by both Indian and foreign insurers, including provident insurance societies.

The first two decades of the twentieth century witnessed significant growth in the insurance business, with 44 companies collectively holding Rs. 22.44 crore in total business. By the year 1938, this number had surged to 176 companies with a total business of 298 crore. It was during this year that the Insurance Act of 1938 was enacted, marking the first legislation to regulate both life and non-life insurance, thereby establishing strict state control over the insurance sector.

Calls for the nationalization of the life insurance industry had been made earlier, but it gained substantial momentum in 1944 when a bill to amend the Life Insurance Act of 1938 was introduced in the Legislative Assembly, though it failed to pass. Following India's independence, the year 1956 witnessed the nationalization of the life insurance business, leading to the establishment of the Life Insurance Corporation of India on 19th January 1956. This new entity took over the operations of 154 Indian companies, 16 foreign companies, and 75 provident societies operating in India.

Over the course of nearly two centuries, the insurance industry has come full circle. The process of liberalization began in the early 1990s, and the last decade has seen significant opening up of the sector. In 1993, the Government of India formed a committee chaired by RN Malhotra, the former Governor of the Reserve Bank of India, to propose reforms in the insurance sector as part of broader financial reforms. The committee submitted its report in 1994, recommending the entry of private companies into the insurance industry and allowing foreign companies to participate as well. These recommendations paved the way for the subsequent reforms in the insurance sector, leading to greater competition and diversity in the industry.

4. LITERATURE REVIEW

Given below are some of the studies pertaining to the insurance sector of India:

In a study conducted by Patel and Dwivedi (2022), titled "A Comparative Study on Profitability and Long-Term Soundness of Selected Private Life Insurance Companies in India," it was found that the life insurance business in India has grown significantly after being deregulated in August 2000. Private life insurance companies have successfully entered the market and established themselves. The study aimed to evaluate the relative profitability and financial stability of three large private life insurance businesses, which together accounted for over half of the private life insurance industry's gross direct premiums.

In Gairola's research (2016), titled "A Comparative Study of Public and Private Insurance Companies in Post Liberalization Era," the relative success of state-owned and private insurance companies in India was examined. The study focused on three key metrics: total premium revenue, the number of new policies issued, and market share. The research spanned from the 2000-01 academic year through the 2015-16 academic year. It found that private life insurers had a significant impact on the state-owned Life Insurance Corporation of India (LIC) during the first decade after liberalization.

Bidyadhar and Mayadhar (2013) conducted a study titled "Performance of LIC of India after Liberalization," which concluded that the nationalization of the insurance industry in 2000, as part of India's broader economic liberalization process since 1991, was seen as a failure. Nationalization resulted in unfavorable effects on the industry's expansion, geographic reach, and implementation of regulations and procedures. The lack of competition and inefficiencies led to a stagnant market. It was observed that the insurance industry's potential in contributing to the country's economic development, both in terms of GDP growth and providing long-term capital for the economy's development, was not fully realized.

In a research study by Rajini, Gomathi, and Narayanan (2017) titled "Constructs Influencing Satisfaction: A Comparative Analysis of Life Insurance Schemes Providers," the focus was on identifying factors influencing the satisfaction of policyholders in life insurance schemes. The study used a multiple regression model to analyze selection criteria, brand recognition, service quality, and customer satisfaction for two insurance providers. The findings revealed that customers of LIC were content with their returns, selection criteria, and service quality, while customers of Reliance Life Insurance were primarily satisfied with returns. The study suggested that marketing activities could play a role in increasing consumer awareness of the different insurance plans available.

Pallavi Pattan and Priyanka Khandelwal (2018) conducted research titled "Comparative Study of Cost Effectiveness of Public and Private Insurance Companies of India" to evaluate cost effectiveness in the Indian insurance market after it opened up to private corporations, competing with the state-run LIC. Despite stiff competition, the results showed that LIC remained the most cost-effective life insurance provider in India based on cost-effectiveness ratios.

Overall, the studies highlighted the significant growth and impact of private life insurance companies in India since deregulation in 2000. While private companies have successfully entered the market, the state-run LIC has maintained its position as a cost- effective provider. The life insurance industry's potential remains vast, presenting opportunities for further development and contributions to the country's economic growth.

4.1. POST LIBERALIZATION ESTABLISHMENT OF PRIVATE AND FOREIGN COMPANIES

Due to the liberalization of the insurance business in India through the amendment in the IRDAI Act 1999, the emergence of private insurance companies took place. By the year 2000-01, there were a total of five life insurance companies operating in India, out of which four were private companies. Subsequently, the number of private players in the insurance sector continued to grow in the following years.

Between the year 2001 and 2011, the number of private life insurance companies in India increased significantly from four to twenty-three, marking a substantial growth in the industry. This expansion was made possible through collaborative efforts with foreign players. The tables below provide information on the life insurance companies operating in India, including their registration numbers, dates of registration, and years of operation.

Consolidated Table of Public and Private sector companies

Sr. No	Name of Insurer	Foreign partner	Type of companies	Registration No	Date of registration	Year of operation
1	Life insurance corporation of india	Indian	Public	512	01-09-1956	1956-57
2	Aditya Birla Sun Life Insurance Co. Ltd.	Aditya Birla Sun Life Insurance Co. Ltd.	Private	109	31-01-2001	2000-01
3	HDFC Life Insurance Company Ltd.	Standard Life (Mauritius Holdings) 2006, Ltd. UK	Private	101	23.10.2000	2000-01

4	ICICI Prudential Life Insurance Company Ltd.	ICICI Prudential Life Insurance Company Ltd.	Private	105	24.11.2000	2000-01
5	Max Life Insurance Company Ltd.	Mitsui Sumitomo insurance Company Ltd. Japan	Private	104	15.11.2000	2000-01
6	TATA AIA Life Insurance	American	Private	110	12.02.2001	2001-02
	Company Ltd.	International Assurance Company (Bermuda) Ltd.				
7	SBI Life Insurance Company Ltd.	BNP Paribas Cardif, France	Private	111	29.03.2001	2001-02
8	Kotak Mahindra Life Insurance Ltd.	Om Mutual	Private	107	10.01.2001	2001-02
9	Kotak Mahindra Life Insurance Ltd.	Metlife InternationalHol dings Inc, USA	Private	117	06.08.2001	2001-02
10	Exide Life Insurance Company Ltd.	......	Private	114	02.08.2001	2001-02
11	Bajaj Allianz Life Insurance Company Ltd.	Allianz, SE Germany	Private	116	03.08.2001	2001-02
12	Reliance Nippon Life Insurance Company Ltd.	Nippon Life Insurance Company Ltd. Japan	Private	121	03.01.2002	2001-02
13	Aviva Life Insurance Company India Ltd.	Aviva InternationalHol dings Ltd. UK	Private	122	14.05.2002	2002-03
14	Shriram Life Insurance Company	Sanlam Emerging Markets	Private	128	17.11.2005	2005-06
	Ltd.	(Mauritius) Limited				
15	Bharti AXA Life Insurance Company Ltd.	AXA India Holdings, France	Private	130	14.07.2006	2006-07

16	Ageas Federal Life Insurance Company Ltd.	Aegis Insurance International NV Netherlands	Private	135	19.12.2007	2007-08
17	Future Generali India Life Insurance Company Ltd.	Participatie Maatschapij Graafsschap Holland NV, Netherlands	Private	133	04.09.2007	2007-08
18	Aegon Life Insurance Company Ltd.	Aegon India Holdings BV, Netherlands	Private	138	27.06.2008	2008-09
19	Canara HSBC OBC Life Insurance Company Ltd.	HSBC Insurance (Asia Pacific) Holdings Ltd. UK	Private	136	08.05.2008	2008-09
20	Star Union Dai- ichi Life Insurance Company Ltd.	Dai-ichi Life Insurance Company Ltd. Japan	Private	142	26.12.2008	2008-09
21	Pramerica Life Insurance Company Ltd.	Prudential InternationalInsu rance Holdings Ltd. USA	Private	140	27.06.2008	2008-09
22	India First Life Insurance Company Ltd.	Carmel point investments India Pvt. Ltd.	Private	143	05.11.2009	2009-10
23	Edelweiss Tokio Life Insurance Company Ltd.	Tokio Marine & Nichido Fire Insurance Company Ltd. Japan	Private	147	10.05.2011	2011-122

5. INSURANCE PENETRATION IN INDIA

Insurance penetration refers to the level of insurance coverage in a country, measured as the percentage of total premiums collected compared to the country's Gross Domestic Product (GDP). This metric is used to assess the development of the insurance sector within a nation. Table 1 given below shows the insurance penetration in India. In India, the insurance penetration has been steadily increasing over the years, rising from 2.7 percent in 2000 to 4.2 percent in 2021. However, according to the Economic Survey's reports released on January 31, 2023, the insurance penetration for 2021 was reported to be 3.2 percent. Despite this slight decline, India's insurance penetration has shown remarkable growth, almost doubling in recent times. Consequently, India is emerging as a promising market for the insurance sector, surpassing the global average for emerging markets.

It can be witnessed from the table 1 given below that the insurance penetration in India has experienced fluctuations over the years. In the financial year 2001-02, it was recorded at 2.71 percent, which increased to 3.26 percent in 2002-03. However, in 2003-04, the percentage declined to 2.88 percent. The trend continued with a slight increase to 3.17

percent in 2004-05, followed by a dip to 3.14 percent in 2005-06. Subsequently, in 2006- 07, the insurance penetration showed a notable increase, reaching 4.80 percent.

In the following years, the percentage experienced fluctuations. In 2007-08, it stood at

4.70 percent, and then it declined to 4.60 percent in 2008-09. However, there was a positive turn in 2009-10 when the penetration percentage rose to 5.20 percent. Unfortunately, this increase was short-lived as it decreased to 5.10 percent in 2010-11 and continued to decline for the next four consecutive years.

During 2011-12, the penetration percentage was 4.10 percent, which slightly decreased to

3.96 percent in 2012-13. It further declined to 3.30 percent in 2013-14 and remained stagnant at the same level in 2014-15. The year 2015-16 saw a slight improvement with the penetration percentage reaching 3.44 percent, and it continued to increase to 3.69 percent in 2016-17. This percentage was maintained in 2017-18, with no change.

In 2018-19, there was a marginal increase as the percentage of insurance penetration reached 3.70 percent. The positive trend continued in 2019-20, with a further increase to

3.76 percent. Finally, in the year 2020-21, there was a more substantial rise, and the insurance penetration reached 4.2 percent, a figure that remained unchanged in the following year, 2021-22.

Table 1

Insurance Penetration in India

Year	Penetration (%)		
	Life	Non-Life	Total
2001-02	2.15	0.56	2.71
2002-03	2.59	0.67	3.26
2003-04	2.26	0.62	2.88
2004-05	2.53	0.64	3.17
2005-06	2.53	0.61	3.14
2006-07	4.10	0.60	4.80
2007-08	4.00	0.60	4.70
2008-09	4.00	0.60	4.60
2009-10	4.60	0.60	5.20
2010-11	4.40	0.71	5.10
2011-12	3.40	0.70	4.10
2012-13	3.17	0.78	3.96
2013-14	3.10	0.80	3.30
2014-15	2.60	0.70	3.30
2015-16	2.72	0.72	3.44
2016-17	2.72	0.77	3.69
2017-18	2.76	0.93	3.69

2018-19	2.74	0.97	3.70
2019-20	2.82	0.94	3.76
2020-21	3.2	1.0	4.2
2021-22	3.2	1.0	4.2

Source: Figures compiled from different economic surveys of India

6. INSURANCE DENSITY IN INDIA

In recent decades, India has experienced a significant surge in insurance density, measured as the ratio of premium to population (per capita premium). In 2001, the insurance density stood at US$ 11.5, but by 2021, it skyrocketed to US$ 91. This impressive growth in insurance density can be attributed to both life insurance, which reached US$ 69, and non-life insurance, which stood at US$ 22.

This remarkable expansion of insurance density in India has been highlighted by various insurance surveys, indicating a faster expansion in the insurance markets. As a result, India is now poised to become the world's fastest-growing insurance market, given the remarkable figures of insurance density and penetration it has achieved.

The insurance density in India exhibited in the Table 2 given below. The table provides that it has witnessed a notable trend from 2001-02 to 2021-22. During the initial period, in 2001-02, it stood at US$ 11.5 and gradually increased to US$ 14.7 in 2002-03, and further to US$ 16.4 in 2003-04. The upward trajectory continued, reaching US$ 19.7 in 2004-05, and then US$ 22.7 in 2005-06. Subsequently, there was a significant surge, with the density reaching US$ 38.4 in 2006-07, and further increasing to US$ 46.6 in 2007-08.

Despite a minor dip in 2008-09 at US$ 47.4, the insurance density bounced back and surged to US$ 54.3 in 2009-10, followed by US$ 64.4 in 2010-11. However, in 2011-12, there was a slight decline, with the density falling to US$ 59.0. The trend continued downward, reaching US$ 53.2 in 2012-13, and further declining to US$ 52.0 in 2013-14.

Thereafter, the insurance density experienced fluctuations, briefly rising to US$ 55.0 in 2014-15, but then declining again to US$ 54.7 in 2015-16. Nevertheless, it once again rebounded in 2016-17, reaching US$ 59.7, and experienced a substantial increase to US$ 73 in 2017-18. The positive trend persisted, with the density growing to US$ 74 in 2018- 19 and further to US$ 78 in 2019-20.

In the subsequent years, the insurance density continued to grow, remaining constant at US$ 78 in 2020-21 and reaching the highest figure recorded to date, US$ 91, in 2021-22. This indicates a significant increase in the demand and adoption of insurance services in India over the years.

Table 2 Insurance Density in India

Year	Density (US Dollar)		
	Life	Non-Life	Total
2001-02	9.1	2.4	11.5
2002-03	11.7	3.0	14.7
2003-04	12.9	3.5	16.4
2004-05	15.7	4.0	19.7
2005-06	18.3	4.4	22.7
2006-07	33.2	5.2	38.4
2007-08	40.4	6.2	46.6
2008-09	41.2	6.2	47.4
2009-10	47.7	6.7	54.3
2010-11	55.7	8.7	64.4
2011-12	49.0	10.0	59.0
2012-13	42.7	10.5	53.2
2013-14	41.0	11.0	52.0

2014-15	44.0	11.0	55.0
2015-16	43.2	11.5	54.7
2016-17	46.5	13.2	59.7
2017-18	55	18	73
2018-19	54	19	74
2019-20	58	19	78
2020-21	59	19	78
2021-22	69	22	91

Source: Figures compiled from different economic surveys of India

7. CONCLUSION

It can be concluded from the foregoing discussion that there has been a huge development in the insurance sector of India and it is poised to develop more and provide better insurance services to the gentry of India, with new policy measures that are being undertaken by India. Moreover, lead to better penetration and density of insurance services in India.

CONFLICT OF INTERESTS

None.

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