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An overview of General Insurance in India

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ABSTRACT

In India where eighty eight percent of the population is outside the insurance net, the very progress of the nation is over shadowed by a myriad of perilous risks to which it is exposed. The languishing Indian farmer has no immediate answer to crop failure, unexpected accidents and illness, to seriously hamper his socio economic progress. In the absence of institutionalized mechanism provided by the government in guaranteeing financial safety nets against varied risks, the role of insurance operator's in general insurance segment is increasingly felt important. The low level of insurance density and penetration adds woes to the above, which in comparison to world average is far below par. The insurance in India is urban centered which deprives the rural masses of the benefits of insurance. It follows that if India is to make any significant advance in the socio- economic front, the uninsured segments has to be brought under this inevitable social safety net. The liberation of the industry from public monopoly and opening up of the industry to private players since 2000 onward has really brought about promising changes in the segment, which would live up to fulfill the risk reduction aspirations of the people One may be optimistic to see that instigated by the demographic dividend of a young population, India is all set to become an attractive insurance market in the upcoming years for General Insurance industry.

1. Introduction

Human beings are susceptible to myriad of risks in a world of uncertainty around. The risk includes fire, the perils of sea, illness, death, crop losses, accidents and burglary. It calls for a mechanism to mitigate the risk of loss of life and property arising out of different contingent eventualities, for the survival of the individual and development of the society. Insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. It is the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. Insurance is an ex-ante risk management tool through which individuals and businesses hedge potential financial losses in exchange for fixed premium payments. . It provides protection and assurance to people during calamitous situation like death, illness, fire, crop losses and similar other losses to goods and property by mitigating the insured by financial cover. Different situations and different people require different mix of risk and cost combinations. Insurance may be life insurance or general insurance (non life). Life insurance is a protection cum investment contract while General Insurance is a contract of indemnity which undertakes to mitigate the actual loss of the insured, by the insurance company for a specified premium.

As per section 2(6B) of the Insurance Act 1938, general Insurance business means fire, marine, or miscellaneous insurance whether carried separately or in combination. A non-life insurance contract is different from a life insurance contract. A life insurance contract is a long term contract, while general insurance contract is a one-year renewable contract. General insurance seeks to indemnify the losses arising in the field of motor, aviation, marine, fire and others .There are 31 life insurance companies operating in India as on march 2017,which collected a premium of Rs 130970.09 crores during the year. India's non-life insurance sector is on an upswing. The industry has grown by over 16 per cent annually over the last four years. The large, middle class population, increased awareness and income levels have fuelled growth of the general insurance business. While motor insurance has dominated the non-life insurance business, health insurance is emerging at a rapid clip. There is a vast, untapped business potential, especially in non-metro cities and semi-urban areas. India has second largest population in the world and an increasing middle class population. The low penetration of general insurance presents tremendous opportunity. More over the need for non-life insurance is also increasing across market segments.

2. Literature Review

Tripathy (2004) suggested that to achieve greater insurance penetration, private companies have to create more vibrant and competitive industry, with greater efficiency, choice of products and value for customers. Narsimha Rao. A.V (2007) explains that the insurance companies face complex problems in addition to the financial liabilities after marketing of insurance policies against the risks of motor vehicles. Suresh Kumara, Barahb(et al), (2011) studied the coverage of crop insurance schemes launched by the government to insulate farmers against risks in agriculture, brought out that most farmers are aware of risk hedging measures of the government. But, only half of the farmers have been found aware about the crop insurance schemes/products, calling for effective steps to give information about insurance schemes across the target groups. Kavitha, Latha, and Jamuna., (2012) highlighted that instigated by the demographic dividend of a young population , India is all set to become an attractive insurance market in the upcoming years for General Insurance. Srivastava, Samir K. and Ray, Avishek (2012) in their paper determines a set of marketing, financial and operational variables to predict benchmark financial strength of general insurance firms in India. The results suggest that the factors that most significantly influence Indian non-life insurers are lines of business, the firm's market share, the premium growth rate, the underwriting performance and the claims incurred. Bashir Ahmad Joo (2013) identified that low insurance penetration and density in India compared to other countries, enticed foreign insurance companies, after liberalisation, to exploit the vast potential of the Indian insurance industry, mainly by entering into joint venture with local partners. Dr. Mehul P. Desai, Ms. Nikita Kahar (2016) attempt to find out the satisfaction level of policy holders of general insurance companies with respect to vehicle insurance within Surat city revealed that most of the customers are satisfied.

3. Importance

General insurance is intended to extend financial guard against the risk of losses arising from fire, the perils of sea, illness, crop losses, accidents, burglary and so forth. The concept of insurance has been extended beyond the coverage of tangible assets. Now the risk of losses due to sudden change in currency exchanges, political disturbance, negligence and liability for the damages can also be covered. A country where 88 percent of the population is uncovered by insurance, the very progress of the nation is over shadowed by a myriad of perilous risks to which they are exposed. The languishing Indian farmer has no immediate answer to crop failure, unexpected accidents and illness, to seriously hamper his socio economic progress. In the absence of institutionalized mechanism provided by the government in providing financial safety nets against varied risks, the role of insurance operators in general insurance segment is increasingly felt important. The low level of insurance density and penetration adds woes to the above, which in comparison to world average is far below par. The insurance in India is urban centered which deprives the rural masses of the benefits of insurance. Notwithstanding its centuries old operational tradition dating back to 1850, when Triton Insurance Company, the first in the country established by the British in Kolkatta, the industry is yet to kick start its business in adequately providing insurance cover to the vast majority. Even with 31 operators in the public and private sector, the situation has not improved markedly. However thanks to the valiant efforts initiated by IRDA, the industry has started showing signs of upward slides,particularily over the past four years. The liberation of the industry from public monopoly and opening up of the industry to private players since 2000 onward has really brought about promising changes in the segment, which would live up to fulfill the risk reduction aspirations of the people. By providing protection against at least some of these risks, the insurance industry helps him better manage his risks and contributes to capital formation in the economy. Thus there is resurgence taking shape in the industry, the analysis of which makes the study significant.

4. Objectives

1. To have an over view of general insurance in India
2. To analyse the density and penetration of general insurance
3. To analyse the recent trend in the industry

5. Methodology

The study is primarily based on secondary data compiled from various sources including the annual reports of IRDA, Swiss Re sigma and GIC and uses standard tools such as percentages, Annual Growth Rates, Average Annual Growth Rates etc for analysis and interpretation of data.

6. General Insurance in India an overview

Insurance came to India as legacy of the colonial past .The first General Insurance Company viz., Triton Insurance Co. Ltd., established in Calcutta in 1850 was fully owned by the Britishers. It was followed by the establishment of the Indian Mercantile Company to transact general insurance business and the enactment of the Indian Insurance Act of 1928 which was subsequently reviewed by a comprehensive legislation in 1938.In 1971 the general insurance was brought under central government control, heralding its nationalization. Consequently, the entire general insurance business in India was nationalized by the Government of India through the General Insurance Business (Nationalization) Act (GIBNA) of 1972. After passing the Act, 107 insurers including branches of foreign companies operating in the country were amalgamated and the General Insurance Corporation (GIC) was incorporated as a company in 1972 in pursuance of Section 9(1) of GIBNA to control and operate the business of general insurance in India. After a process of mergers and consolidation, GIC was re-organized with four fully owned subsidiary companies: National Insurance Company Limited, New India Assurance Company Limited, Oriental Insurance Company Limited and United India Insurance Company. On the basis of the recommendations of the Malhotra Committee, , Insurance Regulatory Authority was formed as a voluntary body in the year 1996 and in 1999, the landmark legislation, Insurance Regulatory and Development Authority Act (IRDA) was enacted. This ended the public sector monopoly and opened up the insurance sector for the private sector operators since 2000 October onwards. India is the fourth largest general insurance operator in Asia as per the Swiss Re, Sigma report 2016. As on 31st march 2017, there are thirty one insurance operators in the general insurance sector including the public sector giants, private players, standalone health private, specialized insurers and reinsurers as listed in the following chart, who together collected a total gross direct premium of Rs 130970 crores in 2017.

General Insurance Companies Operating In India 2017

SL No	1 Private Sector	SL No	2 Public Sector
1	Bajaj Allianz General Insurance Company Ltd.	1	National Insurance Company Ltd.
2	Bharti AXA General Insurance Company Ltd.	2	The New India Assurance Company Ltd.
3	Cholamandalam MS General Insurance Company Ltd.	3	The Oriental Insurance Company Ltd.

4	Future Generali India Insurance Company Ltd.	4	United India Insurance Company Ltd.
5	ICICI Lombard General Insurance Company Ltd.		**3 Standalone Health Private**
6	IFFCO Tokio General Insurance Company Ltd.	1	Aditya Birla Health Insurance Co. Ltd.
7	Kotak Mahindra General Insurance Company Ltd.	2	Apollo Munich Health Insurance Company Ltd.
8	HDFC ERGO General Insurance Company Ltd.	3	Cigna TTK Health Insurance Company Ltd.
9	Liberty Videocon General Insurance Company Ltd.	4	Max BUPA Health Insurance Company Ltd.
10	Magma HDI General Insurance Company Ltd.	5	Religare Health Insurance Company Ltd.
11	Raheja QBE General Insurance Company Ltd.	6	Star Health & Allied Insurance Company Ltd.
12	Reliance General Insurance Company Ltd.		**4 Specialized Insurers**
13	Royal Sundaram General Insurance Company Ltd.	1	Agriculture Insurance Company of India Ltd.
14	SBI General Insurance Company Ltd.	2	Export Credit Guarantee Corporation of India Ltd.
15	Shriram General Insurance Company Ltd.		**5 Reinsurers**
16	TATA AIG General Insurance Company Ltd.	1	General Insurance Corporation of India
17	Universal Sompo General Insurance Company Ltd.	2	ITI Reinsurance Limited

7. International Comparison of Non Life Insurance Penetration and Density

Insurance penetration and Insurance density are the yardsticks for measuring a country's level of development of insurance. Insurance penetration is explained by the ratio of premium paid to Gross Domestic products while Insurance Density stands for premium paid in US Dollars to total population. Table 1.1 depicts a comparative analysis of Non Life Insurance Penetration and Density of India along with other select countries of the world. It is obvious that these parameters are heavily loaded against India at the international and Asian level barring a few exceptions. The level of density and penetration in India is much below world standard .The situation is more worse as far as density is concerned .In the Asian context, too, the situation is not much different as its only just above the underdeveloped economies of Sri Lanka and Pakistan .Thus it is evident that on the basis of these parameters, the level development of general insurance in India is not so promising and which opens up immense opportunities for insurance operators to venture into the vast untapped market to reap higher rewards on the one hand and to extend financial safeguard to the vulnerable people on the other. It follows that if India is to make any significant advance in the socio- economic front, the vast majority of the uninsured population has to be brought under this inevitable social safety net.

Table 1.1

International Comparison of Non Life Insurance Penetration and Density

Countries	Insurance Penetration (%)		Insurance Density(US Dollars)	
	2015-16	2016-17	2015-16	2016-17
	Non-Life	Non-Life	Non-Life	Non-Life
Australia	2.20	3.53	1128.0	1838.6
Brazil	1.80	1.76	154.0	150.8
France	3.10	3.17	1129.0	1167.5
Germany	3.40	3.33	1381.0	1397.1
Russia	1.20	1.13	102.0	100.3
South Africa	2.70	2.74	155.0	146.7
Switzerland	4.10	4.12	3292.0	3233.2
United Kingdom	2.40	2.58	1067.0	1030.5
United States	4.20	4.29	2377.0	2449.2
Asian Countries				
Hong Kong	1.50	1.41	616.0	613.2
India	0.70	0.77	12.0	13.2
Japan	2.60	2.37	837.0	928.3
Malaysia	1.70	1.62	157.0	153.9
Pakistan	0.30	0.26	4.0	3.9
PR China	1.60	1.81	128.0	147.2
Singapore	1.70	1.67	894.0	882.4

South Korea	4.10	4.72	1094.0	1312.3
Sri Lanka	0.70	0.60	25.0	24.5
Taiwan	3.20	3.34	698.0	722.0
Thailand	1.80	1.70	104.0	101.4
World	2.80	2.81	276.0	285.3

Source: Swiss Re, Sigma various volumes

8. Gross Direct Premium Income of Non-Life Insurers

At this juncture, it is quite pertinent to have a look at the Gross Direct Premium Income of Non-Life Insurers both within & outside India as shown in Table 1.2. Out of the total premium collected Rs 130970 crores, 47 percent premium comes from the Public sector which is pyramiding towards the close with remarkable growth rates. It rose from Rs 40980 crores in 2013-14 to Rs 63060 crores in 2016-17,recording an impressive Average Annual Growth Rate (AAGR) of 14.35 percent in a four year period. The private sector insurers, which contribute about 40 percent of the total premium, register even a much improved performance in premium collection, which rose from Rs 32010 crores in 2013-14 to Rs 53805 crores in 2016-17, with a remarkable AAGR of 18.20 percent during a very short span of four years. As a result the growth of premium collection of these dominant sectors taken together comes up to 16 percent annually. The specialised insurers and standalone Health Insurers, Despite of their negligible contributions, make amazing growths during the period. This ultimately results in the take off of the Indian general insurance industry which also grows remarkably with an AAGR of 16.78 percent.

Table 1.2

Gross Direct Premium Income of Non-Life Insurers (Within & Outside India) Rs crores					
Insurer	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**AAGR**
Private Sector Total	32010	35090	39694	53805	
Growth over the previous year in percent.	14.52	9.59	13.12	35.55	**18.20**
Public Sector Total	40980	45017	50644	63060	
Growth over the previous year in percent.	10.54	9.85	12.5	24.52	**14.35**
Public & private total	72990	80107	90338	116865	
Growth over the previous year in percent.	12.12	9.74	12.77	29.36	**16.00**
Specialised Insurers Total	4699	4102	4842	8247	
Growth over the previous year in percent	5.48	-12.7	18.04	70.33	**20.28**
Standalone Health Insurers Total	2245	2943	4153	5858	
Growth over the previous year in percent.	30.05	31.07	41.12	41.06	**35.83**
Grand Total	79934	87151	99333	130970	
Growth over the previous year in percent.	12.26	9.03	13.98	31.85	**16.78**

Source: IRDA Reports Various Issues

9. Net retentions of General Insurers

Business net retention represents an insurance company's policy turnover over a specific time period, and is calculated by dividing net premiums by gross written premiums. An increase in business net retention over time represents growth. The maximum amount of risk retained by an insurer per life is called retention. Beyond that, the insurer cedes the excess risk to a reinsurer. The point beyond which the insurer cedes the risk to the reinsurer is called retention limit. The net retention ratio under motor insurance is the highest when compared to other segments, though there is slight decline from 2014-15 onwards. On the whole the motor insurance segment is clocking good performance with a net retention ratio in the range of 97 to hundred. This is followed by Marine cargo insurance which also on the path of progress as represented by a high net retention ratio. However, the ratio shows a downward slide which is not encouraging for the time being. The miscellaneous ,engineering and fire insurance segment shows similar trends. However, aviation and marine hull segment records moderate development potential in terms of retention ratio. The trend in the major segments is reflected in the general insurance industry as the industry retention is ratio is also on the decline. Despite the declining trend ,the industry is able to peg up the ratio reasonably high indicating that the policy turnover is negligible and the net premium comes about 80 percent to gross premium ,indicating that the Indian general insurance business is growing.

Table 1.3

Net retentions* of General Insurers as a Percentage of Gross Direct Premium (In per cent)

Segment	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Aviation	1.00	38.91	27.15	27.85

Engineering	71.07	71.8	67.23	68.25
Fire	69.24	64.54	63.01	57.03
Marine Cargo	85.99	81.59	81.01	85.19
Marine Hull	31.94	35.47	44.51	20.03
Motor	100.00	99.67	99.20	97.02
Miscellaneous	89.43	88.14	84.28	78.83
Industry	**90.32**	**89.57**	**87.72**	**83.17**

Source: IRDA Reports Various Issues

10. Incurred Claims Ratio (ICR)

Incurred Claims Ratio is nothing but the total value of all claims paid by the insurance company **divided** by the total amount of premium they collected in the same period. Incurred Claims Ratio indicates the company's ability to pay the claims. It is highly significant for calculating the renewal premium as higher incurred claims will affect the rate to be used by underwriters in renewing the terms and conditions of the policy which is normally increasing premium. If there is low Incurred Claims ratio then premium can be pegged at a lower rate. The Incurred Claim Ratio indicates the reliability of the insurance company in terms of the claim settlement. A higher Incurred Claim Ratio is always good for the policyholder and it indicates that the insurance company is successfully meeting its claim. In simple words, ICR indicates the company's ability to pay the claim. But a Very high Incurred Claim Ratio also indicates that the insurance company is going into losses. If the Incurred Claim Ratio of an insurance company is more than 100%, then it means that the amount of money which the company is giving in the form of claims is more than the amount of money collected in the form of premium which indicates the ill financial health of the company.

The private sector depicts an incurred claim ratio in between 79.1 to 80.17 percent, indicating that the private sector insurers are able to meet the claims of policy holders promptly(Table1.4). Since it is under 100, the sector is running relatively profitably, with bright prospects. Coming to the public sector insurers under General Insurance Corporation of India, the ICR is bit more higher and it crosses the 100 percent mark 1n 2016-17, signaling the possibility of the insurers dipping into dangerous zones. However, they can win the confidence of the policy holders as their claims are promptly settled by the company. The Standalone Health Insurers, who are of comparatively recent origin, maintains a lower ICR .This might be due to the relatively higher percentage of young policy holders who are not likely to make any immediate claims. It also gives the impression that Standalone Health Insurers are amassing huge profits, though they settle the claims promptly. However the situation of specialized insures is bit alarming as its ICR is above 100 percent from 2014-15 onwards. On the ultimate analysis, the General Insurance Industry in India is prospering well with a reasonably good ICR satisfying the policy holders and safeguarding the interest of the industry.

Table 1.4
Incurred Claim Ratio

INSURER	TOTAL							
	CLAIMS INCURRED (NET) (Rs Crore)				INCURRED CLAIMS RATIO (Percent)			
	2013-14	2014-15	2015-16	2016-17	2013-14	2014-15	2015-16	2016-17
Private-Total	17874.11	19430.46	21771.81	25771.04	79.58	79.69	80.17	79.10
Public-Total	27817.96	31567.75	38104.27	49043.19	83.20	82.09	89.03	100.02
Specialized Insurers - Total	2470.52	2897.21	2856.57	3455.87	96.69	110.68	100.54	120.22
Standalone Health Insurers Total	1016.03	1336.62	1769.75	2392.04	66.06	62.18	58.20	56.47
Grand Total	**49178.62**	**55232.03**	**64502.40**	**80662.14**	**81.98**	**81.70**	**85.06**	**90.91**

Source: IRDA Reports Various Issues

11. Segment Wise Gross Direct Premium income of General Insurers

As it is evident from Table 1.5 that in the Segment Wise Gross Direct Premium Income, the Motor insurance sector dominates in premium collection which works up to 39 percent of industry total and registers a decent AAGR of 14.6 percent. This is because of the mandatory nature of motor insurance which compels vehicle owners to insure their vehicles for higher premiums. Health consciousness among the people has increased recently, particularly in the context of the increasing cost of medical treatments, which contributed to the growth of Health Insurance in India as depicted in Table 1.5.The Health Insurance segment registers an amazing AAGR of 20.78 percent with vital contributions to the total which is increasing at a rapid pace. The Fire Insurance segment registers a moderate growth which might be due to the comparatively high premium prevailing in the segment. On the other hand the marine insurance segment registers a negative growth. This might give more room for insurers to venture deep into these segment with attractive packages. However the premium collection under Others show a sudden spurt ,with an AAGR of 39.03 percent during the period. The trends in the major segments have a direct impact on the Total industry premium which shows an impressive growth. Recent trends show that Indian general insurance industry is on the forward march irrespective of dips and kicks in certain segments like Marine which needs special care to address with.

Table 1.5

Segment Wise Gross Direct Premium Income (Rs Crores)

Year	Fire	Marine	Motor	Health	Others	Total
2013-14	7362.63	3161.79	33822.75	19634.30	13572.34	77553.82
2014-15	8056.54	3020.06	37379.33	22636.57	13593.23	84685.73
2015-16	8731.46	2984.38	42300.86	27457.30	14905.37	96379.38
2016-17	9538.01	2917.47	50250.53	34526.61	30895.72	128128.34
AAGR	**9.01**	**-2.64**	**14.6**	**20.78**	**39.03**	**18.65**

Source: IRDA Reports Various Issues

12. Channel-Wise Gross Direct Premium General Insurers

The Channel-Wise Gross Direct Premium of General Insurers is depicted in Table 1.6.The bulk of the general insurance business in India is transacted through Direct business, Individual Agents and brokers. As observed earlier, the major contributions come from Motor Insurance and Health Insurance with relatively insignificant contributions from other segments. Micro insurance agents are virtually out of the frame, which is not a good sign like a country where majority of the people are languishing vulnerably at the lower strata of the society for want of safety nets to keep things under protection. The same is the case with referral agents whose business share too is virtually nil. This reminds us of the fact that all these channels need to operate vibrantly in the process insurance promotion, adopting suitable programmes intended to bring the message of insurance to the vast uninsured segments so that each one is brought to the financial safety net, safeguarding their life and property. The existing flaws in the remuneration package of insurance agents shall be properly addressed by suitable regulations by IRDA so that more agents chip in with vital contributions to rejuvenate the industry. More over insurance cover may be extended to the relatively under insured segments like crop insurance, personal accidents insurance in a time sliced manner. For, predominantly an agrarian country like India, crop insurance is of paramount importance in protecting rural masses against crop losses in the process of socio economic progress of the nation.

Table 1.6

Channel-Wise Gross Direct Premium General Insurers in 2016-17(Rs Crore)							
Type of Channel	**Individual Agents**	**Corporate Agents**	**Brokers**	**Referral Agents**	**Direct Business**	**Others**	**Total**
Fire	1869	1630	2845	0	3170	3170	9537
Marine (Cargo)	653	20	930	0	520	520	2125
Marine (Hull)	39	2	134	0	617	617	792
Aviation	9	1	95	0	323	323	429
Engineering	517	55	839	0	881	881	2294
Motor Own Damage	8113	3494	9031	0	3026	3026	23728
Motor Third Party	14544	3653	4632	0	3594	3594	26523
Liability Insurance	550	16	945	0	379	379	1893
Personal Accident	551	1423	477	0	1192	1192	3646
Health Insurance	9628	2940	8712	0	8975	8975	30330
Overseas Medical Insurance	118	36	148	0	278	278	587
Crop Insurance	315	31	320	0	13903	13903	20097
Credit Insurance	5	5	142	0	1290	1290	1443
Miscellaneous	727	893	1221	0	1839	1840	4705
Grand Total	**37640**	**14200**	**30471**	**1**	**39987**	**39988**	**128128**

Source: IRDA Reports Various Issues

13. Findings and Conclusion

The analysis clearly reveals that the general insurance in India is on the upward swing triggered by an impressive AAGR in gross direct premium of above 16 percent over the past four years .The advent of private operators has brought about a healthy competitive environment in the sector, with increase in the number of insurance agents, policy holders and amount of premium. Recent trends show that Indian general insurance industry is on the forward march irrespective of dips and kicks in certain segments like Marine Insurance which needs special care to address with. The industry is able to peg up the net retention ratio reasonably high indicating that the policy turnover is negligible and the net premium comes about 80 percent of gross premium, and that the Indian general insurance business is growing. Similarly, the General Insurance Industry in India is prospering well with a reasonably good ICR satisfying the policy holders and safeguarding the interest of the industry. Motor insurance and health insurance are the major segments of general insurance which contribute bulk of the premium.

The level of insurance density and penetration in India is much below world standard, signaling that the development of insurance in India is still at nascent stage. Steps shall be initiated to improve these parameters for a real take off of the insurance industry. Thus it is evident that on the basis of these parameters, the level development of general insurance in India is not so promising and which opens up immense opportunities for insurance operators to venture into the vast untapped market to reap higher rewards on the one hand and to extend financial safeguard to the vulnerable people on the other. The general insurance coverage in India is only 12 percent. Barring Motor and health segments, the other segment remains, more or less dormant in terms of coverage and hence volume of business, which also opens up potential for development. It follows that if India is to make any significant advance in the socio- economic front, the uninsured segments has to be brought under this inevitable social safety net. Let us be optimistic that instigated by the demographic dividend of a young population, India is all set to become an attractive insurance market in the upcoming years for General Insurance industry.

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