

Growth in Insurance sector: an analysis among India, USA and UK

Santhi.V.R, Guest faculty, MSM College, Kayamkulam, Alappuzha dist., Kerala.

Abstract:

The insurance industry continued to follow in most countries achieving a strong underwriting performance in last 5 years. This performance was possible through an increase in gross premiums in most countries reaching levels that exceeded overall amounts of claims payments and expenses. Several factors drive the developments of the insurance markets, such as the customer's perception of insurance products, economic growth, stable income etc. Gross premiums grew in both the life and non-life sectors among the countries under analysis. In many countries, the insurance market is maturing, giving opportunities for future expansion. An increase in premiums can be explained by an increase in insurance contract sales or an increase in the contract price. Economic growth can lead to a higher demand of insurance products, while a competitive insurance market can lead to a decline in insurance contract prices that individuals and companies can purchase. In a developing country like India this growth is a positive sign of the overall development. The present study is a comparison and analysis among three nations: a developing country – India and two developed countries – USA and UK. Here made an attempt to show insurance sector performance in the analyzed countries on the basis of increment in premiums.

Key terms: Insurance sector, Growth, Premium, Claim etc.

Introduction

Insurance, generally, is a contract in which the insurer agrees to compensate or indemnify another party (the insured, the policyholder or a beneficiary) for specified loss or damage to a specified thing (e.g., an item, property or life) from certain perils or risks in exchange for a fee (the insurance premium). For example, a property insurance company may agree to bear the risk that a particular piece of property (e.g., a car or a house) may suffer a specific type or types of damage or loss during a certain period of time in exchange for a fee from the policyholder who would otherwise be responsible for that damage or loss. That agreement takes the form of an insurance policy.

The Insurance sector in India governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts. With such a large population and the untapped market area of this population Insurance happens to be a very big opportunity in India. Today it stands as a business

growing at the rate of 15-20 per cent annually. Together with banking services, it adds about 7 per cent to the country's GDP. In spite of all this growth the statistics of the penetration of the insurance in the country is very poor. Nearly 80% of Indian populations are without Life insurance cover and the Health insurance. This is an indicator that growth potential for the insurance sector is immense in India. It was due to this immense growth that the regulations were introduced in the insurance sector and in continuation "Malhotra Committee" was constituted by the government in 1993 to examine the various aspects of the industry. The key element of the reform process was Participation of overseas insurance companies with 26% capital. Creating a more efficient and competitive financial system suitable for the requirements of the economy was the main idea behind this reform.

Insurance in the United Kingdom, particularly long-term insurance, is divided into different categories. The categorization is currently set out in sections 333B, and 431B to 431F of the Income and Corporation Taxes Act 1988 (ICTA) with each category of business given a different tax treatment. The Chartered Insurance Institute is a prominent professional group first chartered in 1913. The Financial Services Authority was formed in 2001 as the regulator. In 2013 the Financial Services Authority was dissolved and regulation was instead placed with the Financial Conduct Authority and Prudential Regulation Authority.

Insurance in the United States refers to the market for risk in the United States, the world's largest insurance market by premium volume. Of the \$4.640 trillion of gross premiums written worldwide in last year, \$1.274 trillion (27%) were written in the United States.

Review of Literature

C. Balaji (2015), in his paper- Customer awareness and satisfaction of life insurance policy holders with reference to Mayiladuthurai town tries to measure awareness among the urban and rural consumer about the insurance sector and also the various policies involving various premium rates.

Venkataramani.K, Dr.R.Mohan Kumar, Dr.G.Brinda (2015), in their article, "A study on the attitude of Consumers and Insurance Agents towards the proposed increase in Foreign Direct Investment (FDI) in Insurance sector in India" have conducted quantitative survey to gauge the attitude of public and the insurance agents who are doing the business on behalf of the insurance companies toward the decision of government of India to rise the cap in FDI in insurance sector from 26% to 49%.

Dr Sunayna Khurana (2013), in her article, "Analysis of Service Quality Gap in Indian Life Insurance Industry" says that Life insurance companies in India offer similar kinds of plans and services, but they could provide differences in terms of service quality. In this context this research tried to find out the gap

between Customer expectation & customer perception in the Life insurance industry by examining a Sample of 200 customers of 10 top performing Life insurance companies in Haryana state.

Vijay Kumar (2012), in his PhD thesis, “A Contemporary Study of Factors Influencing Urban and Rural Consumers for Buying Different Life Insurance Policies in Haryana”, makes an in-depth study of the factors influencing buyer behavior for buying life insurance policies in Haryana. The result indicates that there was a significant difference in the buying behaviors of rural and urban policyholders.

Upadhyaya and Badlani (2011), in their research, attempt to identify the key success factors in the life insurance industry, in terms of customer satisfaction so as to survive intense competition and to increase the market share. The study concludes that despite high satisfaction levels, there remains a lot to be done by the management of the retail life Insurance companies to maximize their customer satisfaction and improve the quality of service. The satisfaction of the customer with the services of the Life Insurance Companies was found to be linked with the performance of the service

Statement of the problem

As the insurance market generally expanded for last 5 years, the amount of premiums and claims paid also continued to increase worldwide. The growth drivers of this sector differ in the life and non-life sectors, although some, such as the customers ‘perception, may be common to both. In the non-life sector, natural hazards are one of the main factors driving claims paid. Insurers achieved an overall underwriting profit in the non-life segment in most countries. This shows that premiums written exceeded the amount of claims paid by insurers, their operating costs and commissions paid. There are families inspired with insurance sector investment that have started to drive a lot of new insurance needs. As a result, in the developing world, derives a lot of demand for insurance products. This is driving growth for domestic companies, but it’s also acting as an opportunity for some of the global insurers. Companies like AXA, MAPFRE and Prudential UK have all moved aggressively into the Asian and the Latin American markets. However, insurance is an industry that takes in money and invests that money before subsequently paying claims. This result in lower investment returns and there’s less profit being generated by the insurance sector. Over the last 30 years, many U.S.-based insurance companies have failed to return their cost of capital. In the present scenario there exist both positive and negative signs in the global insurance sector. A few studies are there in relation with the global insurance sector, especially between developing and developed countries. So in this context the present study relates about insurance sector growth comparison among India, USA and UK grabs significance.

Objectives of the study

1. To compare the value of insurance premium of insurance sector among the selected countries.
2. To predict the premium of insurance sector in India.
3. To make suitable findings and conclusion.

Research Methodology

Data relates to insurance sector of selected countries like India, USA and UK are collected. The data collection is in the form of secondary data. Statistical details are collected from the various published sources. With the data collected suitable analysis are conducted for the study.

Limitations of the study

- Due to the paucity of time, the investigator could not reach all the statistical data and surveys related to the study.
- The accuracy of the statistical figures depends on the published data.
- The result of the study is based on the credibility of the data collected.

Data Analysis and interpretations**Table 1.1**

Value of Total premium in UK, USA and India (Billion Rupees)

| Year | UK | USA | India |
|------|-----------|----------|-----------|
| 2014 | 30768.962 | 76561.2 | 4252.155 |
| 2015 | 31107.254 | 77270.1 | 5345.623 |
| 2016 | 31464.34 | 85776.9 | 5532.481 |
| 2017 | 31821.426 | 87194.7 | 6408.730 |
| 2018 | 32216.1 | 86840.25 | 6697.6872 |

Based on the above information, analysis was done, which is explained below.

Table 1.2

Comparison of the insurance sector

| One factor Anova | | | | | |
|--|-------------------|-----------|------------------|-----------|---------|
| Mean | n | Std. Dev | Country | Rank | |
| 31,475.62 | 5 | 570.76 | UK | 2 | |
| 82,728.63 | 5 | 5,337.97 | USA | 1 | |
| 5,647.14 | 5 | 966.50 | INDIA | 3 | |
| 39,950.46 | 15 | 33,286.18 | Total | | |
| Anova Table | | | | | |
| Source | SS | df | MS | F | p-value |
| Treatment | 15,392,564,460.92 | 2 | 7,696,282,230.46 | 775.99 | 0.000 |
| Error | 119,015,473.58 | 12 | 9,917,956.13 | | |
| Total | 15,511,579,934.50 | 14 | | | |
| Post hoc analysis | | | | | |
| Tukey simultaneous comparison t-values (d.f. = 12) | | | | | |
| | | INDIA | UK | USA | |
| | | 5,647.14 | 31,475.62 | 82,728.63 | |
| INDIA | 5,647.14 | | | | |

| | | | | |
|---|-----------|--------|--------|--|
| UK | 31,475.62 | 12.97* | | |
| USA | 82,728.63 | 38.70* | 25.73* | |
| critical values for experiment wise error rate: | | | | |
| | 0.05 | 2.67 | | |

Source: Secondary data

The average of Total premium (In Billion) collected by the various insurance companies for the last 5 years in UK is 31,475.62±570.76. In USA and India the average of Total premium (In Billion) collected by the various insurance companies for the last 5 years is 82,728.63 ± 5,337.97 and 5,647.14 ± 966.50 respectively. Anova table showed the fact that there is significant difference among the three countries on the average of Total premium (In Billion) collected by the various insurance companies for the last 5 years, as the p value is 0.000(P<5%).

The post hoc test also confirms the fact that, in terms of the volume of the business USA stands in the first position, followed by UK and India.

Table 1.3
Trend in the insurance sector of India

| Regression Analysis | | | | | | |
|---------------------|----------------|-------------|----------------|---------|---------------------|-----------|
| | r ² | 0.949 | n | 5 | | |
| | r | 0.974 | k | 1 | | |
| | Std. Error | 250.934 | Dep. Var. | INDIA | | |
| ANOVA table | | | | | | |
| Source | SS | df | MS | F | p-value | |
| Regression | 3,547,597.7746 | 1 | 3,547,597.7746 | 56.34 | .0049 | |
| Residual | 188,904.2806 | 3 | 62,968.0935 | | | |
| Total | 3,736,502.0552 | 4 | | | | |
| Regression output | | | | | confidence interval | |
| variables | coefficients | std. error | t (df=3) | p-value | 95% lower | 95% upper |
| Intercept | 1,195,117.0190 | | | | | |
| t | 595.6171 | 79.3524 | 7.506 | .0049 | 343.0823 | 848.1520 |
| t | INDIA | Predicted | Residual | | | |
| 2014 | 4,251.15500 | 4,455.90096 | -204.74596 | | | |
| 2015 | 5,345.62300 | 5,051.51810 | 294.10490 | | | |
| 2016 | 5,532.48100 | 5,647.13524 | -114.65424 | | | |
| 2017 | 6,408.73000 | 6,242.75238 | 165.97762 | | | |

| | | | | | | |
|-----------------------------|------------------|-------------|------------|--|--|--|
| 2018 | 6,697.68720 | 6,838.36952 | -140.68232 | | | |
| | Durbin-Watson = | 3.12 | | | | |
| Predicted values for: India | | | | | | |
| | | | | | | |
| <i>t</i> | <i>Predicted</i> | | | | | |
| 2,014 | 4,455.90096 | | | | | |
| 2,015 | 5,051.51810 | | | | | |
| 2,016 | 5,647.13524 | | | | | |
| 2,017 | 6,242.75238 | | | | | |
| 2,018 | 6,838.36952 | | | | | |
| 2,019 | 7,433.98666 | | | | | |
| 2,020 | 8,029.60380 | | | | | |
| 2,021 | 8,625.22094 | | | | | |
| 2,022 | 9,220.83808 | | | | | |
| 2,023 | 9,816.45522 | | | | | |
| 2,024 | 10,412.07236 | | | | | |

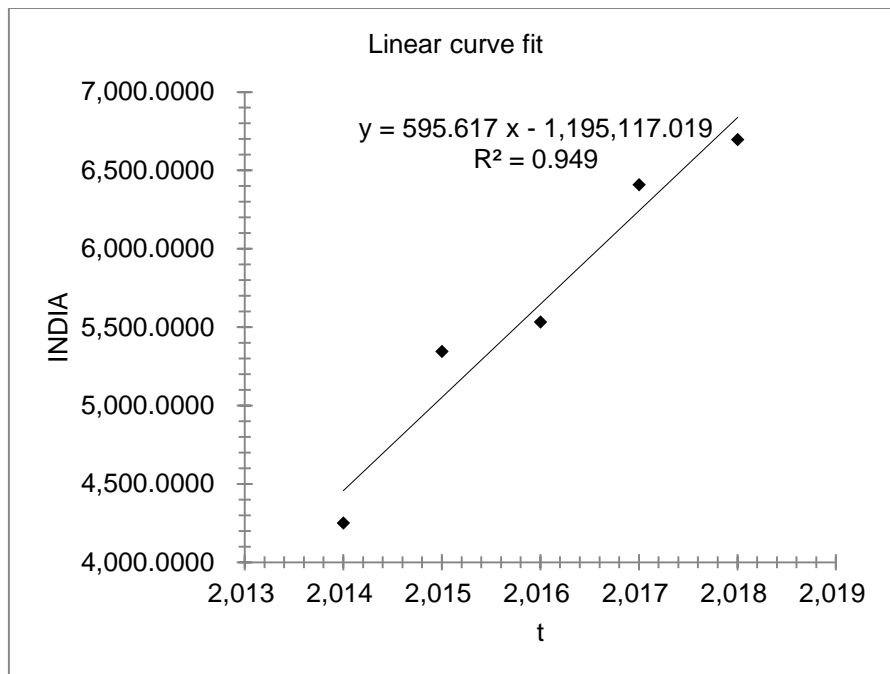
Source- Secondary data

A trend analysis was done to examine the future growth of Insurance sector in India. Accordingly Anova test was done and p value is 0.0049, which is found significant. This implies the model is fit for the prediction. The regression analysis showed a value of 94.9%, showed a high reliability for the prediction. The OLS equation for the prediction is

Insurance Premium in India=1,195,117.01 +595.61 (Time).

The Durbin-Watson score is 3.12, showed the model is not spurious. It is predicted from the analysis that in the year 2019, the value of insurance premium will be 7,433.98 (In Billion). In 2021, the value of insurance premium will be 8625.22 (In Billion) and in 2023, the value of insurance premium will be 9816.45 (In Billion). Finally it was predicted that in the year 2024, the value of insurance premium will be 10412.0798 (In Billion).

The graphical representation of the prediction is shown in figure 1.1



Conclusion

There shows increasing trends in insurance sector in selected countries. Insurance industry is emerging competitive in the Indian context particularly after the floodgates of secured monopoly markets are opened up to private players. The insurance market has witnessed dynamic changes due to liberalization and privatization of insurance sector. There are a number of threats that inhibit the growth and development of insurance in worldwide. Some of these challenges include: terrorism, tough competition, selective marketing, managing customer grievances and growth of captive insurers. The Indian insurance market is expected to continue this growth trajectory in the future. In order to continue the growth and to remain competitive, the insurance companies in the selected countries must become more:

- Agile - as they respond to new and increasing competitive threats
- Efficient - as they address profitability challenges
- Customer-centric - as they respond to social changes and increasing consumer expectations
- Even more advanced in terms of data and analytics, as the industry moves from just pricing and pooling risks to truly managing individual risks

References

1. Agarwal, J. and K.K. Shukla, 2014. Awareness and impact of globalization of life insurance in India. International Journal of Application or Innovation in Engineering & Management, 3(10): 1-8.

2. Ajemunigbohun, S.S., S.O. Ademola and A.S. Iyun, 2014. An exploratory study of the awareness and accessibility of microinsurance products in selected insurance companies in Lagos, Nigeria. *European Journal of Business and Management*, 6(28): 1-9.
3. Allain, D.C., S. Friedman and L. Senter, 2012. Consumer awareness and attitudes about insurance discrimination post enactment of the genetic information nondiscrimination act.
4. Banerjee, T.S., 2014. Effects of age and hierarchy levels on awareness of disaster insurance. *Global Journal of Finance and Management*, 6(9): 893-896.
5. A.S. and S.S. Bhola, 2014. Awareness of life insurance among sample customers. *Indian Streams Research Journal*, 4(7): 1- 15.
6. Bansal, A., S. Goel, A. Singh, A.A. Singh, A.K. Goel, S.M. Naik and S. Goel, 2015. A community-based study to assess the awareness of health insurance among rural Northern Indian population. *International Journal of Health System and Disaster Management*, 3(1): 41-43.
7. T.K., P. Agarwal and P. Fitzgerald, 2015. Changing awareness of the health insurance marketplace. *American Journal of Public Health*, 105(S5): S633-S636
8. Gautam, V. and M. Kumar, 2012. A study on attitudes of Indian consumers towards insurance services. *Management Research and Practice*, 4(1): 51-62.
9. Geng, X., V. Ide, W. Janssens, B. Kramer and M. van der List, 2017. Health insurance, a friend in need? Evidence from financial and health diaries in Kenya. IFPRI Discussion Paper 01664.
10. Ghazanfar, S., Z. Qi-wen, M. Abdullah, Z. Ahmad and M. Lateef, 2015. Farmers' perception and awareness and factors affecting awareness of farmers regarding crop insurance as a risk coping mechanism evidence from Pakistan. *Journal of Northeast Agricultural University*, 22(1): 76-82.
11. Hebbar, C.K., S. Shenoy and G.P. Rao, 2014. Risk awareness and usage of child insurance plan with special reference to HDFC standard life insurance company in India.
12. Kimani, J.K., R. Ettarh, C. Kyobutungi, B. Mberu and K. Muindi, 2012. Determinants for participation in a public health insurance program among residents of urban slums in Nairobi, Kenya: Results from a cross-sectional survey. *BMC Health Services Research*, 12(1): 66-77.
13. Kitunzi, H., M. Helen and G. Consolate, 2016. Influence of awareness on the usage of motor third party insurance: A case study of kampala district. *African Health Sciences*, 16(4): 1169-1173.

14. Krishnekumaar, S.T. and K.S. Meenakshisundaram, 2015. A study of women empowerment & community participation in health insurance awareness in India. *International Journal of Research in IT and Management*, 5(9): 15-28.
15. Mishra, A., P. Bafna and R. Srivastava, 2016. Awareness about equity link insurance schemes of life insurance companies. *Jagran Journal of Commerce and Economics*, 3(5): 75-86.

