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"INDIAN INSURANCE INDUSTRY CHALLENGES AND FUTURE POSPECTS "

Snigdha Ghosh, Research Scholar, Dept. Of Commerce and Business Management Ranchi University, Ranchi

ABSTRACT

India is among the most promising emerging insurance markets in the world. Notwithstanding the rapid growth of the sector over the last decade, insurance in India remains at an early stage of development. The dynamic growth of insurance buying is partly affected by the (changing) income elasticity of insurance demand. .Insurance is a shield which protects the financial interests of people. This study has made an attempt to analyse the challenges and future prospects in insurance industry. The players needs to create awareness in the new rural market and take the pain to understand the needs and demands of the Indian customers. Customers satisfaction should be given priority.They should work along with the government in order to grow.

KEYWORDS: Insurance, Challenges, Financial Sector

INTRODUCTION

The financial service industry has made significant changes after liberalisation and globalisation. Among all, insurance sector is also one of the important sectors in India**.** The past decade has seen considerable growth in the insurance sector and has seen the introduction of a large number of innovative products – a natural and positive outcome of increasing competition. The insurance sector plays a very crucial role in the economy of any country – it increases avenues for savings of individuals, protects the future of individuals and spreads risks of institutions by forming a large pool of fund. The sector also contributes significantly to the capital markets and assists in large capital infrastructure developments of our country through their funds. The insurance sector in India is one of the booming sectors of the economy and is growing every year. The insurance industry is witnessing a growth rate of around 15-20% yearly .The potential of the Indian insurance industry is huge. And the future of the Indian insurance sector looks bright.As the government of India liberalized the insurance sector in March 2000, lifting all entry restrictions for private players.Insurance companies in India are growing vertically and horizontally bringing growth and new employment opportunities. It is an intensively people-oriented business and human resources will be theundoubteddifferentiator.India's life insurance sector is the biggest in the world with about 460 million policies which are expected to increase at a Compound Annual Growth Rate (CAGR) of 5.3% per cent between the year 2019-2023. The insurance industry plans to hike penetration levels to five per cent by 2025.The country's insurance market is expected to quadruple in size over the next 10 years from its current size of US$ 280 billion. During this period, the life insurance market is slated to cross US$ 160 billion. India's insurance penetration was pegged at 3.76% in FY20, with life insurance penetration at 2.82% and non-life insurance penetration at 0.94%. In terms of insurance density, India's overall density stood at US$ 78 in FY20. The purpose of opening up the insurance industry was to enable the customers to have better options with attractive

array of products with salient features and benefits. It also helped in bringing in huge foreign capital and offered employment opportunities through insurance agency as a career to a large number of educated youth, both in urban and rural areas.

CONCEPT AND MEANING OF INSURANCE

Life is a roller coaster ride and is full of twists and turns. Insurance policies are safeguard against the uncertainties of life. Insurance is an economic institution that allows the transfer of financial risk from an individual to a pooled group of risks by means of two-part contract. As in all insurance, the insured transfers a risk to the insurer, receiving a policy amount of coverage against an uncertain event. Insurance is a means of protection from financial loss. It gives peace of mind. Insurance provides people and businesses with financial protection, so that when something bad happens they can maintain a certain standard of living and public finances need not to be burdened. It, therefore makes sense for policymakers to enable as many people and businesses as possible to take out suitable insurance cover. Insurance is a technique wherein a number of people, who are exposed to similar risk, participate in the scheme and contribute in the shape of periodic premiums. Such premiums are received by the insurer who is able to pay out of the premiums received by him, for the losses of some of those who have participated in the scheme. Thus it is wonderful technique of spreading and transfer of risks. Insurance is the efficient use of an insured's resources. Insurance makes it unnecessary to set aside a large amount of money to pay for the financial consequences of the risk exposures that can be insured. This allows that money to be used more efficiently. Insurance meets statutory and contractual requirements as well as provides evidence of financial resources. Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Risk is uncertainty of a financial loss. Insurance is also defined as a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person injured against the risk. Insurance provides financial protection against a loss arising out of happening of an uncertain event. A person can avail this protection by paying premium to an insurance company. A pool is created through contributions made by persons seeking to protect themselves from common risk. Any loss to the insured in case of happening of an uncertain event is paid out of this pool. Insurance helps reduce the burden of uncompensated accident victims and the uncertainty of society. The insurance is primarily a social device adopted by civilized society for mitigating the incidence of loss of income to families by unforeseen contingencies.

TYPES OF INSURANCE

On the basis of the risk they cover, insurance policies can be classified into two major categories:

- Life insurance
- Non-Life Insurance

Life Insurance

Life Insurance is defined as a contract between an insurance policy holder and an insurance company, where the insurer promises to pay a sum of money in exchange for a premium, upon the death of an insured person or after a set period. Life Insurance policies also comes with the guaranteed sum assured amount which is payable on happening of the event. Life Insurance provides a risk coverage to the insured family in form of monetary compensation in lieu of premium paid, it acts as a support for the family. Providing a safeguard to the family of the policy holder is the most important work of the life insurance policy.

Non Life insurance

Non-life insurance products cover risks against natural calamities, burglary. Non Life insurance helps to protect the policyholders the things which they value, such as homes, cars and other valuables, from the financial impact of risks, big and small – from fire, flood, storm and earthquake, to theft, car accidents, travel mishaps – and even from the costs of legal action against us. And one can choose the types of risks we wish to cover by choosing the right kind of policy with the features it needs.

Insurance is system by which the losses suffered by a few are spread over many, exposed to similar risks. With the help of Insurance, large numbers of people exposed to a similar risk make contributions to a common fund out of which the losses suffered by the unfortunate few, due to accidental events, are made good. Insurance is a protection against financial loss arising on the happening of an unexpected event. Insurance policy helps in not only mitigating risks but also provides a financial cushion against adverse financial burdens suffered.

OBJECTIVES OF THE STUDY

1. To know the challenges faced by the Insurance industry in India .
2. To know about the furure prospects of insurance industry.

LIMITATIONS OF THE STUDY

1. The researchers could cover only the position of Insurance industry of India.

2. The study does not contain the comparison of one private or public companies under insurance industry in India.

3. The area of the study is kept limited due to the short time and financial position.

4. Since the study is based upon secondary data, hence the result will depend on these data.

RESEARCH METHODOLOGY

To fulfil the objectives of the present study, the following research methodology has been used:-

1. **Selection of Insurance Industry for study:** In Insurance industry, plays a major role in the economic development of a as one and only country and is one of the booming sector in the in the growing every year. That is why; the researchers have selected insurance for analyzing its role in Industries.

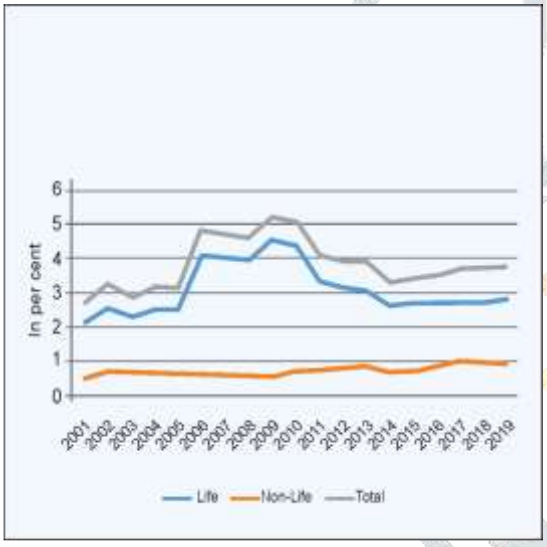
2. **Collection of data:** The main sources of secondary data are published annual reports, manuals, books, journals, articles, business magazines and other research papers.

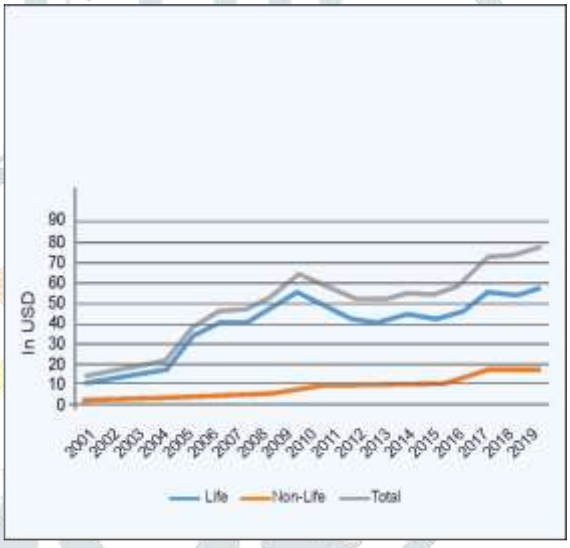
3. **Period of Analysis:** In order to achieve the objectives of the study, a time-series data on the relevant indicators have been collected from last twenty years.

4**. Analysis of data**: To achieve the objectives of the study, the collected data has been analysed by observations, as well as by my personal experience, documentation I still observe some researchers perform the qualitative data analysis manually (pens & hardcopy papers) & semi-automatically (via Excel to copy & paste transcribed text into spreadsheet for coding analysis

INSURANCE INDUSTRY PENITRATION AND DENSITY IN INDIA

The insurance industry of India consists of 58 insurance companies of which 24 are in life insurance business and 34 are non-life insurers. The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium GDP, insurance density is (per capita premium). The level of insurance density reached upto USD 64.4 in the year 2010 from the level of USD 11.5 in 2001. However, there was a slight decline further, but regained its position gradually and has become USD 74 in the year 2018, (USD 73 in 2017).The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to reach the peak at USD 55.7 in 2010. Since then it has exhibited a declining trend up to the year 2013. During the year 2018, the level of life insurance density was USD 55 (USD 55 in 2017). The life insurance penetration had gone up from 2.15 percent in 2001 to 4.60 percent in 2009. Since then, it has exhibited a declining trend up to the year 2014. There was a slight increase in 2015 reaching 2.72 percent, remained same in 2016, increased to 2.76 in the year 2017 and decreased to 2.74 in the year 2018.The penetration of non-life insurance sector in the country has gone up from 0.56 in 2001 to 0.97 in 2018 (0.93 in 2017). Its density has gone up from USD 2.4 in 2001 to USD 19 in 2018 (USD 18 in 2017)





Insurance Penitration in India Insurance Density in India

Source : IRDA Annual Report (2019-20)

CHALLENGES OF INSURANCE SECTOR

Insurance sector in the country has undergone circuitous movement, from an open competitive market to full nationalization, and then back again to a liberalized market. It is now experiencing the emergence of a competitive market. Besides, new players focus their attention on smart marketing, efficient customer services and also on increasing the coverage of the insurance market. LIC is facing competitive challenges and IRDA is playing a significant role in regulating and promoting life insurance business in India. Several factors account for the speed at which new private new entrants have penetrated the market. Some major challenges which is being faced by the industry are:

- Innovations in the Competitive Insurance Sector

  One of the most essential requirements for survival and growth of an organization in a

competitive environment is to innovate continually. The role of innovation, in the context of insurance, also assumes very high significance. Consumers today not only need insurance, but also look for value added benefits like premium waiver, free insurance in some form etc. The players are coming out with innovative add campaigns, more sophisticated and intelligent workforce and properly trained agents.

- Distribution Channels

The strong growth in Indian insurance industry is due to intence techniques adopted by the players in the industry. Segmentation of markets, selling segment oriented products, focusing on fuller satisfaction of customer's aspirationTypically, alternate channel in the insurance industry comprises of different verticals which are institutions such as corporate agents, brokers and cooperative banks.

- Legal risks

Significant and unexpected changes in the legal environment can result in serious implications for the insurance business. These changes can be either through government legislations or case law decisions. To remain competitive, insurance companies are concentrating on upgrading their products, developing new ways to manage and oversee risk and capital management, and formulate new regulations that may revolutionize the industry in the next decade.

- Cost

The Insurance Act, 1938, prescribes a ceiling on management expenses, which include administration expenses such as commissions etc. The percentage varies from insurer to insurer and primarily depends on the new business premium garnered in a year and the age of the company.The limit on expenses is set to protect the long-term interest of the policy holders. Due to significant expenses companies have accumulated losses running into millions of rupees.

- Taxation

The insurance industry is facing challenges with respect to taxation on both the demand and supply side. On one hand, the service tax charged to insurance companies has been increased.The changes in the budget and taxation framework have made life insurance a relatively less attractive product while increasing the preference for mutual funds, public provident funds, nonconvertible debentures, national pension schemes or tax free infra structure bonds.

- Customer Relationship Management

Service goes beyond delivery of policy document or processing customer requests.The relationship of the clients should be ever maintained, but the mistakes of the agent are the major causes in the relationship management.There is a gap between the management's perception of customer expectation and the actual customer expectation, and here the challenge is been faced by the insurance industry, to maintain a good relation with the customers.

- Cybersecurity

  As digitalisation is increasing which is making life easy there is now an ever-present concern about cybersecurity threats. This presents a unique opportunity for insurers, as individuals and businesses alike seek out protection for their own data and privacy.

- Covid 19

  COVID-19 which began as a health crisis has now taken over as a financial one. With the global economy crashing and multiple sectors taking a major financial hit, the insurance industry has become a vital part of the new reality of the economy. India is among the 15 worst COVID-19 affected economies.A McKinsey report suggests that the national GDP reverting to pre-COVID levels can take place as early as the Q-4 of 2020 or as late as the Q-3 of 2022. The outbreak has decreased the global insurance index by22.6% leading to a decline in share prices by25.9%.

FUTURE PROSPECTS OF INDIAN INSURANCE SECTOR

The insurance sector in India is projected to grow at a compounded rate of 12-15% for the next five years. Nevertheless, insurance companies weathered the crisis well and are now enjoying a strong rebound from the second quarter of 2020-2021 onward, thanks to aggressive steps to meet the changing needs and behaviors of customers. New business premiums have risen around 16% year-on-year (YOY) in the second quarter, mainly due to greater adoption of term plans as compared to unit-linked insurance plans (ULIPs). This was the result of a shift in customers' perception of life insurance as risk cover rather than an investment product. Due to the pandemic, many now consider insurance to be a necessary safeguard against unforeseen circumstances. So, while life insurance may still be some way from a pull product, it has definitely achieved the status of a nudge product. Such changes in consumer mindset have reminded companies of the importance of customer centricity. Players have been quick to adapt and have introduced specific covers for pandemics, policies tailor-made to customer expectations and requirements, digital access to services, and enhanced claim settlement mechanisms.

With an increasing population and specially due to corona pandemic and rising the scope of healthcare insurance is rising tremendously, around 120 crore Indians are expected to be insured by the end of 2021. As a result, the importance of Insurance in financial planning is set to increase.

- Newly tapped Markets

  In this growing stage of the country the insurancesector players have started exploring the rural markets. Around 70% of India's population has a rural base and their consumption pattern and choices are changing with time which has opened up an pool of business and growth opportunity, and it has streamlined its operations in the emerging scenario of the insurance. As the entry of the very new virus Covid 19 in India it has shown that how much insurance is important in one's life. Life insurance primarily protects the livelihoods of people and their future financial security. As a result, life insurance has a direct correlation with the earnings of people, their business performance, and net worth. Since

the onset of the pandemic, there has been a rush to increase one's cover. According to the PwC report, pure life covers should see renewed interest, and thus, should see a boost in demand.

- Recent Initiatives

The Finance Minister has approved a proposal to raise foreign direct investment (FDI) in insurance and pension sectors to 49 percent from the existing 26 percent to encourage more investment in the sector. The Securities and Exchange Board of India (SEBI) has relaxed rules to allow more life insurers to launch public offers.The government also strives hard to provide insurance to individuals in a below poverty line by introducing schemes like the

- Pradhan Mantri Suraksha Bima Yojana (PMSBY),
- Rashtriya Swasthya Bima Yojana (RSBY) and

- Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY).

Introduction of these schemes would help the lower and lower-middle income categories to utilize the new policies with lower premiums in India.The implementation of the seventh pay commission, which will increase the pay-scale and give more purchasing power to the Government employees, would also lead to more demand for luxury things, thereby contributing to growth in insurance market.

- New Insurance Product

The awareness around need for protection has increased by many folds since the onset of the pandemic. The need for insurance has become ubiquitous with maximum people investing in insurance products as per their requirements. Interestingly, demand for insurance products for a plethora of risks that were usually not covered by insurance companies has started gaining traction. These covers range from protection against a pandemic to protection against seasonal illnesses like dengue. Though they would prefer to pay a decently priced premium for these policies. For instance, the Corona Rakshak plan, that is available for a time period of 3.5 months to 9.5 months and is available for a premium as low as Rs. 100/month. With the availability of such products digitally as well, these will rightly cater to the digitally-savvy generation of people.

- Make in India

Make in India' initiative, investment in infrastructure, smart cities initiative and increased consumption. These initiatives are likely to result in increased number of projects that are likely to come up, increased trace activity leading to growth in marine, increased growth in automobile sales leading to growth in Auto Insurance.

- Economic growth

We are witnessing a significant growth in the Indian economy. The World Bank has projected India to be the fastest growing economy this year. The high growth rate is expected to give more purchasing power to the people and augment the net disposable income of the public. With rising awareness on the need for insurance in today's world, a significant proportion of this purchasing power is slated to boost the insurance sector.

CONCLUSION

The future of India's insurance sector looks bright. The country has a favourable demographic, growing awareness, investment friendly government which is constantly working towards framing policies that give businesses the best possible environment to grow. The ongoing COVID-19 pandemic drastically shifted consumer needs, habits and expectations, while compelling the customers to buy insurance products. The economic scenario which is going on has thrown a new challenge before the insurance sector. Now it has to be more competitive in order to meet the needs and demands of its customers. It should be planned accordingly, suiting the Indian society, because it is a diversified one from high income group of the low one. Industry should concentrate on agents‟ training to make them updated as per market requirements & professionalism to tackle the queries of customers & doubts raised in their mind by other competitors. In most of the countries, Insurance industries have not been allowed to operate in a free and competitive environment and are saddled with avoidable restrictions. The market forces should be allowed to operate and determine as to which are the best products and optimum price in the interest of the consumers. Similarly most of the decisions relating to investment of funds, marketing of products, placement of reinsurance business should be left to marketing forces. The objective behind regulations is to ensure financial strength of the companies so that the interest of the policy holders are protected, theobjective could efficiently be achieved by incorporating self-discipline and code of conduct, strict compliance to maintain solvency margin will itself ensure healthy financial strength.

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