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A Study on Growth Impact of General Insurance Companies, Period 2007 – 2011

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Abstract: **It can be said that the insurance industry as a whole has recorded profound growth after liberalization and privatization of the sector, though the reforms have adversely affected the underwriting results of all the public sector general insurance companies, thanks to their increase in expense ratio and claim ratio in the post-reform period. In the post-reform period, the comparative profitability analysis of the public and private sectors reveals that the public sector general insurance companies have exhibited higher underwriting losses than the private sector companies but the higher investment income of the public sector has compensated their higher underwriting losses which resulted into their higher profitability than the private sector general insurance companies. The liberalization process and the competitive environment acted as a catalyst in the general insurance sector and inculcated efficiency in most of the public insurers and made them more efficient as compared to their private competitors, though private players are reducing the gap very fast by providing better service quality to their customers. The latest market share figures indicate that in such a short span of time, private players have captured market share to the extent of forty-one per cent, which is an eye opener. It is high time for the public insurers to completely reorganize their business model and service delivery to survive in the market.**

INTRODUCTION

The insurance industry in India has seen an array of changes in the past one decade. The economic scenario which emerged after globalization, privatization and liberalization 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. The reforms contributed to increase the awareness of the insuring public about the wider range of choice of insurance products and the price offered by the competing insurers in the market. The customers know well about their rights and remedies, availability of various grievance redresser mechanisms, progressive decontrol and detoxification of pricing of insurance products, particularly in the non- life insurance segments. The technical know-how, expertise and wide experience of multinationals that have joined with the Indian companies have revolutionized almost all aspects of insurance industry in India. The insurance industry has an important socio- economic function to discharge and as such it plays a leading role within the financial system in a country. It has a decided advantage over most other financial activities in the present economic world. It provides funds, largely in the long-term, to repair or compensate for the real value and cost of damages, accident and various losses in all fields of material activities, as well as life and health. An evolving insurance sector is of vital importance for economic growth. While encouraging savings habit, it also provides a safety net to both enterprises and individuals. The insurance industry also provides crucial financial intermediation services, transferring funds from the insured to capital investment, which is critical for continued economic expansion and growth, simultaneously generating long-term funds for infrastructure development. Development of the insurance sector is necessary to support the structural changes in the economy. India's rapid growth rate over the decade has been one of the most significant developments in regional markets and also in global economy. Today India is one of the fastest growing economies of the world. It is now Asia's third largest economy and has made inroads into the global top 10 in terms of Gross Domestic Product (GDP). The service sector has contributed significantly in India's growth story in the recent years. GDP originating from the service sector recorded a growth rate of 11 per cent in 2006-07 (Annual Report of IRDA, 2007). The contours of insurance business have been changing across the globe and the rippling effect of the same can be observed in the Indian market as well. Insurance Industry is a growth-oriented industry. In India too, the industry has started to reveal the potential after liberalization and privatization of the sector. India is geographically large and has the world's second largest population but it also has one of the lowest penetration rates for general insurance in Asia in terms of premium as a percentage of GDP. This situation reflects the fact that India's insurance market is still in its infancy, meaning good growth potential. Strong economic growth of India in the last decade combined with a population of over a billion makes it one of the potentially largest insurance markets in the future. The increased economic activity coupled with recent reforms in general insurance market, would certainly help to expand the market in the years to come. The reforms and the opening up of the insurance sector invited many Indian and foreign companies to start up their business. It has been estimated that insurance sector growth is more than three times the growth of economy in India. It is the reason that large number of foreign and domestic companies are investing in insurance sector in India.

CHANGING SCENARIO OF GENERAL INSURANCE INDUSTRY

The General Insurance Sector dominated by General Insurance Corporation (GIC) and its four subsidiaries since nationalization of insurance, has started looking different now. The major happenings in the last few years of privatization can be summarized as below:

Functional autonomy of subsidiaries of GIC has been granted. GIC has been instructed to stop writing direct business and act as Indian reinsure. IRDA has finalized various guidelines and regulations. Competition was reintroduced in 2000 with the licensing of the first private company. Large number of new entrants in the private sector is already operational. The intense competition brought about by deregulation has encouraged the industry to innovate in all areas, from underwriting, marketing, policyholder servicing, etc. Aggressive marketing strategies by private sector insurers have buoyed consumer awareness of risk and expanded the markets for products. Competition in a deregulated environment has allowed market forces to set premiums that are appropriate for exposures and push insurers to differentiate their products and services. Innovations in distribution and use of information technology have followed as public and private insurers compete to market their products. Allowing insurers to issue their own policy wordings w.e.f. April 1, 2008, and set their own rates w.e.f. Jan. 1, 2007 have enabled insurers to tailor products to meet client needs.

Table 1.1
List of General Insurance Companies in India

Sr. No.	Name of the Company
1.	The Oriental Insurance Company Limited
2.	The New India Assurance Company Limited
3.	National Insurance Company Limited
4.	United India Insurance Company Limited
5.	Agriculture Insurance Company of India Limited
6.	Export Credit Guarantee Corporation Limited
7.	Royal Sundram Alliance Insurance Company Limited
8.	Reliance General Insurance Company Limited
9.	IFFCO Tokio General Insurance Company Limited
10.	TATA AIG General Insurance Company Limited
11.	Bajaj Allianz General Insurance Company Limited
12.	ICICI Lombard General Insurance Company Limited
13.	Appolo DKV Health Insurance Company Limited
14.	Future General India Insurance Company Limited
15.	Universal Sompo General Insurance Company Limited
16.	Star Health and Allied Insurance Company Limited
17.	Cholamandalam General Insurance Company Limited
18.	HDFC-Chubb General Insurance Company Limited
19.	Shri Ram General Insurance Company Limited
20.	Bharti Axa General Insurance Company Limited
21.	Raheja QBE General Insurance Company Limited

It is evident from the above table that as a result of the introduction of reforms in the insurance sector in India, many large and well established world class private companies have entered into the arena to grab new opportunities in the non-life insurance sector. It is essential that this involvement should be channelized into a positive factor for the growth of the Indian insurance sector in particular and the Indian economy in general.

SPREAD AND GROWTH OF INSURANCE IN INDIA AND GLOBAL PERSPECTIVE

The spread of insurance is measured in terms of insurance penetration and measure of density. To see the growth and opportunities in the insurance sector in any country, insurance penetration, insurance density, premium income and growth in premium should be measured. India is geographically large and has the world's second largest population, i.e., 1.13 billion in 2007 (Moody's ICRA Global, 2008). Despite such a huge population, the insurance penetration and density as compared to the world levels is quite insignificant. Tables 2 and 3 explain the life insurance penetration and density respectively.

Table 1.2
Life Insurance Penetration

Country	2007	2008	2009	2010	2011
India	2.53	2.53	4.10	4.00	4.00
China	2.21	1.78	1.70	1.80	2.20
Brazil	1.36	1.33	1.30	1.40	1.40
Russia	0.61	0.12	0.10	0.10	0.00
United States	4.22	4.14	4.00	4.20	4.10
United	8.92	8.90	13.1	12.6	12.80

Kingdom			0	0	
Japan	8.26	8.32	8.30	7.50	7.60
South Africa	11.43	10.84	13.00	12.50	12.50
World	4.55	4.34	4.50	4.40	4.10

Source: Compiled from IRDA Annual Reports from 2007-08 to 2010-11.

Note:
1. Insurance penetration is measured as ratio (in per cent) of premium to total GDP.
2. Data relates to calendar years.

Table 1.2 explains Life Insurance penetration in the global perspective. Life insurance penetration is measured as a ratio (in percentage terms) of the insurance premium to the Gross Domestic Product (GDP). As is evident from Table 2, there is an increasing trend in the life insurance penetration in India and has almost doubled from 2.15 per cent to 4.00 per cent during the period under study. The figures are quite impressive if a comparison is made with other fast developing nations like China, Brazil and Russia but still, India is far behind developed nations like United States, United Kingdom, Japan, South Africa, though stagnation is apparent in the life insurance penetration of these developed nations. The world-wide penetration of life insurance is also stagnant; rather it declined from 4.22 in 2006 to 4.10 in 2011. In the Indian context, no doubt life insurance penetration has increased during the period under study, but it is still very low as compared to the developed nations.
Table 3 exhibits the life insurance density in the global perspective. Life insurance density is calculated as a ratio (in percentage terms) of premium to total population. The life insurance density in India also shows an increasing trend but still the figures are unimpressive in the global perspective.

Table 1.3
Life Insurance Density (USD)

Country	**2007**	**2008**	**2009**	**2010**	**2011**
India	15.7	18.3	33.2	40.4	41.2
China	27.3	30.5	34.1	44.2	71.7
Brazil	45.9	56.8	72.5	95.3	115.4
Russia	24.8	6.3	4.0	6.1	5.4
United States	1692.5	1753.2	1789.5	1900.6	1922.0
United Kingdom	3190.4	3287.1	5139.6	5730.5	5582.1
Japan	3044.0	2956.0	2829.3	2583.9	2869.5
South Africa	545.5	558.3	695.6	719.0	707.0
World	291.5	299.5	330.6	358.1	369.7

Source: Compiled from IRDA Annual Reports from 2007-08 to 2010-11.
Note:
1. Insurance density is measured as ratio (in per cent) of premium to total population.
2. Data relates to calendar years.

Life insurance density has witnessed an impressive growth from 15.7 per cent to 41.20 per cent in the period 2007 to 2011. The figures related to China also present a similar story, whereas Brazil has improved very fast on this parameter. United Kingdom tops in terms of life insurance density, i.e., 5582.1. World-wide, the life insurance density has shown an increasing trend and it increased from 235.0 to 369.7 during the period under study. As is evident from the table, despite such a massive growth in the life insurance density in India in the post-reform period, still it is disproportionately small and is just one-ninth of the world average.

Table 1.4
General Insurance Penetration

Country	**2007**	**2008**	**2009**	**2010**	**2011**
India	0.65	0.61	0.60	0.60	0.67
China	1.05	0.92	1.00	1.10	1.00
Brazil	1.63	1.68	1.60	1.60	1.60
Russia	2.21	2.15	2.30	2.40	2.30
United States	5.14	5.01	4.80	4.70	4.60
United Kingdom	3.68	3.55	3.40	3.00	2.90
Japan	2.25	2.22	2.20	2.10	2.20
South Africa	2.95	3.03	3.00	2.80	2.90
World	3.43	3.18	3.00	3.10	2.90

Source: Compiled from IRDA Annual Reports from 2007-08 to 2010-11.
Note:
1. Insurance density is measured as ratio (in per cent) of premium to total population.
2. Data relates to calendar years.

Further, the figures related to general insurance present a more dismal picture. Table 1.4 explains the General Insurance Penetration in India as well as at the global level. General Insurance Penetration is measured as a ratio of premium to Gross Domestic Product (GDP). The table reveals that in the post-reforms period, the general insurance penetration has registered a marginal increase. In 2007, it was 0.65 and then it increased to 0.67 in 2011. At the global level, the general insurance penetration has witnessed stagnation. In United States, it increased marginally from 4.57 to 4.60 during the period under study. The figures in the case of other countries also present a similar trend. The world average also declined marginally from 3.15 to 2.90 during the corresponding period. The position of general insurance sector in India is quite discouraging as compared to other developing nations. An attempt has been made to examine the General Insurance Density at the global level and in the Indian perspective. The General Insurance Density is measured as a ratio of premium to total population. Table 5 highlights the General Insurance Density in US Dollar terms.

Table 1.5
General Insurance Density (USD)

Country	2007	2008	2009	2010	2011
India	4	4.4	5.2	6.2	6.2
China	12.9	15.8	19.4	14.7	19.3
Brazil	55.2	72.1	88.4	106.9	129.1
Russia	89.6	116.5	146.9	203.3	268.1
United States	2062.6	2122.0	2134.2	2164.4	2177.4
United Kingdom	1318.0	1311.9	1327.1	1383.2	1275.7
Japan	830.8	790.4	760.4	736.0	829.2
South Africa	141.0	156.2	160.2	159.5	163.6
World	220.0	219.0	224.2	249.6	264.2

Source: Compiled from IRDA Annual Reports from 2007-08 to 2010-11.
Note:
1. Insurance density is measured as ratio (in per cent) of premium to total population.
2. Data relates to calendar years.

Table 1.5 clearly explains that the general insurance density in India has increased from $4 in 2007 to $6.2 in 2011, while in the case of United States, it increased from $2062.6.1 to $2177.4 during the same period. Even the developing countries like China, Brazil and Russia registered an impressive growth in the General Insurance density. A world-wide increasing trend in the general insurance density from $220.0 to $264.20 can be observed from the table, during the period under study. It is clearly evident from the tables 4 & 5 that the General Insurance penetration and Density in India is too low as compared to the world levels. It seems that even the reform process has failed to provide the desired results despite the fact that Indian insurance sector is still unexplored and untapped.

TRENDS IN GROSS DIRECT PREMIUM

Gross Direct Premium is one of the important and main indicators of the performance of the insurance business. The Gross Direct Premium of the public sector general insurance companies for the period 2006-07 to 2010-11 has been presented in Table 1.6.

Market Share in Gross-Direct Premium:

The market share of different players in the gross direct premium during the period of study has been presented in Table 1.7. The performance of insurance companies can be examined further by looking at the trend in their market share during the pre- and post-reform period. This trend also differentiates the performance of four public sector general insurance companies.

Table 1.6
Gross Direct Premium of Public Sector General Insurance Companies in Period 2007-2011

(Rs. in crore)

Year	2006-07	2007-08	2008-09	2009-10	2010-11
National	1207.3 (26.10)	1456.5 (20.64)	1636.5 (12.35)	1853.5 (13.26)	2042.1 (10.17)
New India	2131.9 (19.97)	2433.6 (14.15)	2688.5 (10.47)	3017.6 (12.24)	3306.5 (9.57)
Oriental	1325.6 (20.71)	1524.2 (14.98)	1709.5 (12.15)	1969.9 (15.23)	2166.5 (9.98)
United India	1554.8 (17.85)	1798.3 (15.66)	1962.7 (9.14)	2260.8 (15.18)	2390.5 (5.73)
Total	6219.6 (20.73)	7212.6 (15.96)	7997.2 (10.87)	9101.8 (13.81)	9905.6 (8.83)

Source: Annual Reports of Public Sector General Insurance Companies from 2006-07 to 2010-11.
Note: Figure in parentheses show growth rate in Gross Direct Premium.
The table given above shows the trend in gross direct premium during the period of this study. There is an upward trend in gross direct premium income of the public sector general insurance companies in pre-liberalization period. New India Assurance emerged as the largest public sector general insurance company during all the years of pre-reform period followed by United India Insurance, Oriental Insurance and National Insurance companies. The growth rate of gross direct premium over the previous year has been calculated for all the public sector general insurance companies to evaluate the impact of privatization on the growth of public sector general insurance companies by comparing the growth of the pre- and post- privatization period. Tables 1.6 and 1.7 exhibit that growth rate of public sector general insurance companies during the pre-reform period is higher than the post-reform period. It clearly shows that the privatization has negatively

affected the growth rate of public sector general insurance companies. It is mainly due to the strong competition posed by the private sector, their better marketing strategies and innovative products. The private sector companies have shaken the state owned insurance companies and forced them to act immediately to sustain higher growth rate in the insurance sector.

Table 1.7
Market Share of General Insurance Companies in Period 2007-11

(Percentage)

Name of Company	2006-07	2007-08	2008-09	2009-10	2010-11
National	20.55	20.65	16.57	14.76	13.96
New India	29.75	27.65	26.60	22.90	21.36
Oriental	17.53	16.75	16.92	15.51	13.54
United	18.52	15.95	14.78	13.49	12.99
Total Public sector	86.35	81.00	74.87	66.65	61.85
Royal Sundaram	1.56	1.79	2.15	2.31	2.47
Reliance	0.97	0.88	0.76	3.52	6.76
Iffco Tokio	1.95	2.69	4.18	4.41	3.92
Tata Aig	2.08	2.43	2.68	2.74	2.72
ICICI Lombard	2.94	4.73	7.42	11.53	11.48
Bajaj Allianz	2.88	4.61	5.96	6.89	8.27
Chomandalam	0.59	0.92	1.03	1.20	1.82
HDFC Chubb	0.68	0.95	0.94	0.75	0.77
Total Private Sector	13.65	19.00	25.13	33.35	38.15
Total	100.00	100.00	100.00	100.00	100.00

Source: Annual Report of IRDA from 2006-07 to 2010-11.
Note: Figures in Parenthesis show growth in gross direct premium in percentage.

Table 1.7 exhibits that New India Assurance emerged as the largest public sector company during the pre- and post-reform periods. However, United India insurance from its second place slipped to the fourth and market share of about 18.52 per cent during the pre-reform period to 12.99 per cent in 2010-11. Oriental General Insurance Company which was at the third place during the pre reform-period maintained the same position, but National Insurance Company from its fourth place climbed to the second. The study also reveals that the market share of all the public sector general insurance companies decreased sharply due to the entry of private companies in the field. The table reveals that there has been an increasing trend in Gross Direct Premium of the general insurance companies belonging to both the public and private sectors during the post-reforms period. However, the growth rate is higher in the case of private sector companies as compared to public sector companies. Among the private sector companies, ICICI Lombard emerged as the largest company followed by Bajaj Allianz during the period under study. In 2010-11, Reliance General Insurance Company registered the highest growth rate in the whole insurance sector. Further, the trend in growth rate has been higher during the post-reforms period. It shows that the privatization of insurance sector has a positive impact on the growth of general insurance industry.

CONCLUSION

The specific conclusion of the study is as follows:

1. Study the conceptual frame work of the reforms process in the Insurance Industry in India.
2. Examine the effect of reforms on the performance of the Public Sector General Insurance companies.
3. Appraise the comparative performance of the Public Sector and the Private Sector General Insurance companies.
4. Assess the comparative service quality level of General Insurance companies in India.
5. Identify the gaps in the performance and to make suggestions to improve the performance of the General Insurance Industry in India.

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