

Insurance Sector in India

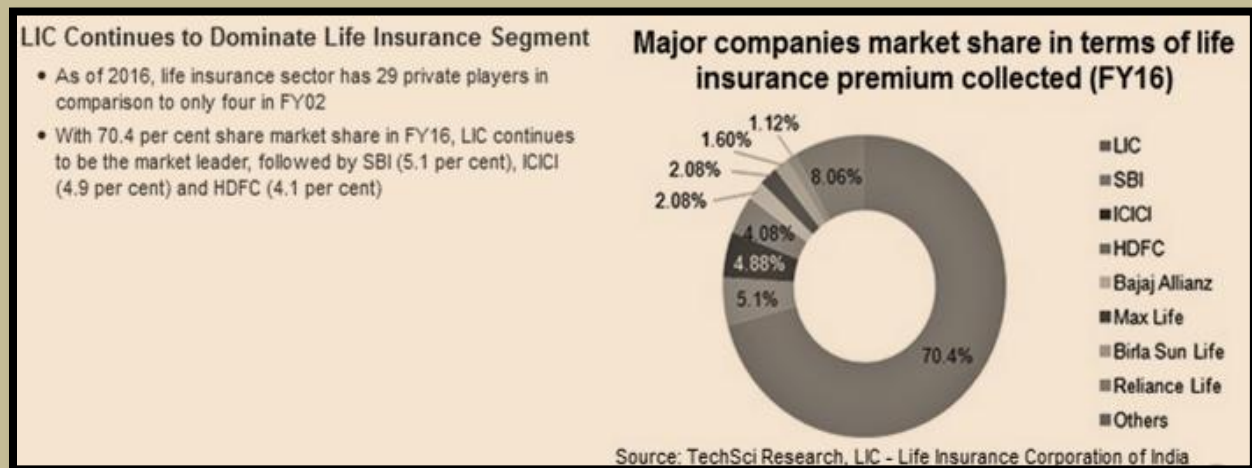
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INTRODUCTION

The insurance industry of India consists of 53 insurance companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India (GIC Re). Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.

Out of 29 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialised insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance.



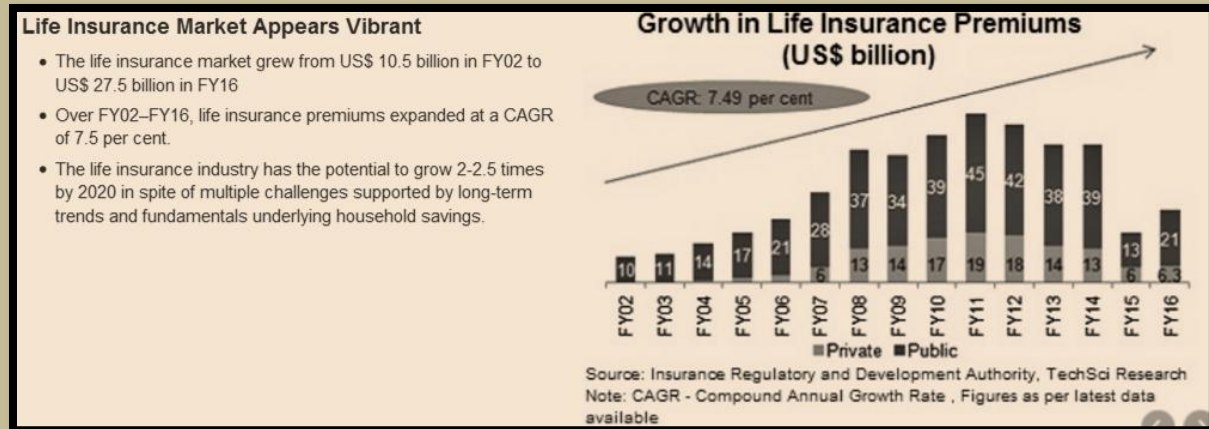
MARKET SIZE

During April 2015 to March 2016 period, the life insurance industry recorded a new premium income of Rs 1.38 trillion (US\$ 20.54 billion), indicating a growth rate of 22.5 per cent. The general insurance industry recorded a 12 per cent growth in Gross Direct Premium underwritten in April 2016 at Rs 105.25 billion (US\$ 1.55 billion).

India's life insurance sector is the biggest in the world with about 360 million policies which are expected to increase at a Compound Annual Growth Rate (CAGR) of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to five per cent by 2020.

The country's insurance market is expected to quadruple in size over the next 10 years from its current size of US\$ 60 billion. During this period, the life insurance market is slated to cross US\$ 160 billion. The general insurance business in India is currently at Rs 78,000 crore (US\$ 11.44 billion) premium per annum industry and is growing at a healthy rate of 17 per cent.

The Indian insurance market is a huge business opportunity waiting to be harnessed. India currently accounts for less than 1.5 per cent of the world's total insurance premiums and about 2 per cent of the world's life insurance premiums despite being the second most populous nation. The country is the fifteenth largest insurance market in the world in terms of premium volume, and has the potential to grow exponentially in the coming years.



INVESTMENTS

The following are some of the major investments and developments in the Indian insurance sector.

- Max Life Insurance Co Ltd and HDFC Life Insurance Co Ltd have signed a merger agreement, which is expected to create India's largest private sector life insurance company once the transaction is completed.
- Lloyd's, a UK-based reinsurer, plans to make its entry in Indian markets by early 2017, after receiving the approval from Insurance Regulatory and Development Authority (IRDA) to operate in India through its market model wherein a set of members collectively come together to underwrite and provide reinsurance.
- The Insurance Regulatory and Development Authority of India (IRDAI) plans to issue redesigned initial public offering (IPO) guidelines for insurance companies in India, which are to looking to divest equity through the IPO route.
- Aviva Plc, the UK-based Insurance company, has acquired an additional 23 per cent stake in Aviva Life Insurance Company India from the joint venture (JV) partner Dabur Invest Corporation for Rs 940 crore (US\$ 141.3 million), thereby increasing their stake to 49 per cent in the company.
- The Insurance sector in India is expected to attract over Rs 12,000 crore (US\$ 1.76 billion) in 2016[#] as many foreign companies are expected to raise their stake in private sector insurance joint ventures.
- QuEST Global, a pure-play engineering and Research and Development (R&D) services provider, has raised investment of around Rs 2,396 crore (US\$ 351.54 million) from leading global investors Bain Capital, GIC and Advent International for a minority stake in the company.
- Insurance firm AIA Group Ltd has decided to increase its stake in Tata AIA Life Insurance Co Ltd, a joint venture owned by Tata Sons Ltd and AIA Group from 26 per cent to 49 per cent.
- Canada-based Sun Life Financial Inc plans to increase its stake from 26 per cent to 49 per cent in Birla Sun Life Insurance Co Ltd, a joint venture with Aditya Birla Nuvo Ltd, through buying of shares worth Rs 1,664 crore (US\$ 244.14 million).

- Nippon Life Insurance, Japan's second largest life insurance company, has signed definitive agreements to invest Rs 2,265 crore (US\$ 332.32 million) in order to increase its stake in Reliance Life Insurance from 26 per cent to 49 per cent.
- Bennett Coleman and Co. Ltd (BCCL), the media conglomerate with multiple publications in several languages across India, is set to buy Religare Enterprises Ltd's entire 44 per cent stake in life insurance joint venture Aegon Religare Life Insurance Co. Ltd. The foreign partner Aegon is set to increase its stake in the joint venture from 26 per cent to 49 per cent, following government's reform measure allowing the increase in stake holding by foreign companies in the insurance sector.
- GIC Re and 11 other non-life insurers have jointly formed the India Nuclear Insurance Pool with a capacity of Rs 1,500 crore (US\$ 220.08 million) and will provide the risk transfer mechanism to the operators and suppliers under the CLND Act.
- State Bank of India has announced that BNP Paribas Cardif is keen to increase its stake in SBI Life Insurance from 26 per cent to 36 per cent. Once the foreign joint venture partner increases its stake to 36 per cent, SBI's stake in SBI Life will get diluted to 64 per cent.

GOVERNMENT INITIATIVES

The Government of India has taken a number of initiatives to boost the insurance industry. Some of them are as follows:

- The Union Budget of 2016-17 has made the following provisions for the Insurance Sector:
- Foreign investment will be allowed through automatic route for up to 49 per cent subject to the guidelines on Indian management and control, to be verified by the regulators.
- Service tax on single premium annuity policies has been reduced from 3.5 per cent to 1.4 per cent of the premium paid in certain cases.
- Government insurance companies to be listed on the exchanges
- Service tax on service of life insurance business provided by way of annuity under the National Pension System regulated by Pension Fund Regulatory and Development Authority (PFRDA) being exempted, with effect from April 01, 2016.
- The Insurance Regulatory and Development Authority (IRDA) of India has formed two committees to explore and suggest ways to promote e-commerce in the sector in order to increase insurance penetration and bring financial inclusion.
- IRDA has formulated a draft regulation, IRDAI (Obligations of Insurers to Rural and Social Sectors) Regulations, 2015, in pursuance of the amendments brought about under section 32 B of the Insurance Laws (Amendment) Act, 2015. These regulations impose obligations on insurers towards providing insurance cover to the rural and economically weaker sections of the population.
- The Government of India has launched two insurance schemes as announced in Union Budget 2015-16. The first is Pradhan Mantri Suraksha Bima Yojana (PMSBY), which is a Personal Accident Insurance Scheme. The second is Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), which is the government's Life Insurance Scheme. Both the schemes offer basic insurance at minimal rates and can be easily availed of through various government agencies and private sector outlets.
- The Uttar Pradesh government has launched a first of its kind banking and insurance services helpline for farmers where individuals can lodge their complaints on a toll free number.
- The select committee of the Rajya Sabha gave its approval to increase stake of foreign investors to 49 per cent equity investment in insurance companies.

- Government of India has launched an insurance pool to the tune of Rs 1,500 crore (US\$ 220.08 million) which is mandatory under the Civil Liability for Nuclear Damage Act (CLND) in a bid to offset financial burden of foreign nuclear suppliers.
- Foreign Investment Promotion Board (FIPB) has cleared 15 Foreign Direct Investment (FDI) proposals including large investments in the insurance sector by Nippon Life Insurance, AIA International, Sun Life and Aviva Life leading to a cumulative investment of Rs 7,262 crore (US\$ 1.09 billion).
- The Insurance Regulatory and Development Authority of India (IRDAI) has given initial approval to open branches in India to Switzerland-based Swiss Re, French-based Scor SE, and two Germany-based reinsurers namely, Hannover Re and Munich Re.

CONCLUSION

India's insurable population is anticipated to touch 750 million in 2020, with life expectancy reaching 74 years. Furthermore, life insurance is projected to comprise 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10.

The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers.

Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.

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