INSURANCE: A Protection Against Financial Loss – Deepika Velkar

The insurance industry has 57 insurance companies 24 are in the life insurance company in India, and 34 are non-life insurers. Out of that the life insurers, Life Insurance Corporation (LIC) is the individual public sector company. There are six public sector insurers in non-life insurance.

Also, there is an individual national re-insurer, namely the General Insurance Corporation of India (GIC Re). Other stakeholders in the Indian Insurance market including agents (individual and corporate level), surveyors, brokers, and third-party administrators servicing health insurance claims.

Insurance is a protection against financial loss which is emerging from the occurrence of an unexpected event. “A definite course or method of action selected (by government, institutions, group or individual) from among alternatives and in the light of given conditions and in the light of given conditions to guide and usually, to determine present and future Decision.

A policy is defined as an organization’s general response to a particular problem or situation. It is the organisation’s own way of handling the problems. Policies are made at very levels because the managers at even level need to decide or predetermined way of handling a situation. Policy act as a guide to take a decision in unexpected situations

Insurance Regulatory and Development Authority of India (IRDAI), is a statutory body formed under an Act of Parliament, i.e., Insurance Regulatory and Development Authority Act, 1999 (IRDAI Act 1999) for overall supervision and development of the Insurance sector in India.

The powers and functions of the Authority are laid down in the IRDAI Act, 1999 and Insurance Act, 1938. The Insurance Act, 1938 is the principal Act governing the Insurance sector in India. It provides the powers to IRDAI to frame regulations that lay down the regulatory framework for the supervision of the entities operating in the sector. Further, there are certain other Acts that govern specific lines of Insurance business and functions such as the Marine Insurance Act, 1963 and the Public Liability Insurance Act, 1991.

In an Indian insurance policy, there are 2 key elements.

First, is loss risk coverage/ sum assured And second is premium. The insurance industry of India has 57 insurance companies.

There are 3 types of segments

1) Life insurance. 24 companies working under the life insurance sector in India

2) Non-life insurance.

3) Re-insurance. The life insurance sector in India comprises 24 life insurance companies. Among the life insurance companies, the Life Insurance Corporation (LIC) of India is the only public sector company. while 34 are non-life insurers. And 2 companies are Re-insurance.

Types of insurance:

1) LIFE INSURANCE:

In life insurance, there are so many types of policy

a) Term insurance

b) Endowment

c) ULIP (unit-linked plan)

d) Whole life policy

e) Money back policy.

2) NON LIFE INSURANCE:

In non-life insurance, there are also have so many types

- Motor
- Health
- Travel
- Home
- Marine
- Fire

Importance Of Insurance Sector

Helps in mobilizing savings of the public to finance assets. Reduce the fiscal burden on the government. To run a scheme for social security. Reduction of fiscal deficit. Spread of financial services in rural areas- IRDA regulations provide certain minimum business to be done in rural areas, in the socially weaker sections. A well-developed insurance sector boots risk-taking and entrepreneurship in the economy. Promote social-economic development. Insurance companies make money doing investments in firms, investment in properties.

Insurance penetration

Insurance penetration measures the contribution of insurance premium to the gross domestic product (GDP) of the country in percentage terms. For instant, if a country generates a total insurance premium of say, USD 10 billion and that country’s GDP for the same period is USD 100 billion insurance penetration translates to 10% (i.e USS 10b / USD 100b * 100)

Insurance density

Insurance density on the other hand is the ratio of insurance population. It gives an indication of how much each of the people in a country spends on its insurance in terms of premium. In other words, it is the per capita premium for the country, calculated by dividing the total insurance premium by the population for example, if the population of the country in the above example is 10 million people, the insurance density (per capita premium) would be USD. 1000

Government initiatives in the field of insurance

- Nationalization and formation of LIC and GIC,
- Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)
- Pradhan Mantri Jan Dhan Yojana (PMJDY)
- Pradhan Mantri Gurkha Bima Yojana (PMSBY)
- Pradhan Mantri Mahila bima yojana(PMFBY)
- Aam Aadmi Bima yojana (AABY)
- Ayushman Bharat,

The various state government in India have also initiated various schemes at the state to provide insurance cover to people like

Swasthya Sathi (West Bengal Yeshashivni health insurance scheme (Karnataka), Mukhyamantri Anrutam Yojna (Gujrat), Karunya health scheme (Kerala) and others.

Challenges in India’s insurance sector

Prevalence of insurance gap:

Insurance penetration and insurance density are low in comparison with global levels revealing the uninsured nature of a section of the population in India, and the presence of an insurance gap.

Public sector dominated:

The insurance sector has transitioned from being an exclusive state monopoly to a cooperative market, but public-sector insurance holds a greater share of the insurance Market Even though they are fewer in number.

Nascent non-life insurance:

Life insurance Dominates the sector with a huge share of 74.7%, with non-life insurance accounting for the remaining 25.3%. In the non-life insurance sector, motor, health, and crop insurance segments are driving growth. India’s non – life insurance penetration is below 1%. In addition, insurance products catering to speciality risks such as catastrophe and cyber security are at a nascent stage of development in the country.

Rising competition:

Liberalization will create acute competition in the insurance market because more and more players join the race for greater Indian insurance.

Risk management:

With the environmental changes in the economic scenario of the country the risk landscape has undergone significant changes with the opening up of the economy and the entry of MNC in almost all sectors, there has been a surge in the income levels, especially in the middle-class

Managing the regulatory authority:

As the competition is acute the customer becomes more vulnerable to the vagaries of the market environment. The regulators have a dual responsibility. They had to ensure that the insured adhere to sound insurance principles and practices as well as maintain adequate financial resources to meet their liabilities.

Government Initiatives

The Government of India has taken a number of initiatives to grow the insurance industry.

- Union Budget 2021 increased the FDI limit in insurance from 49% to 74%. India's Insurance Regulatory and Development Authority (IRDAI) has declared the issuance, through Digilocker, of digital insurance policies by insurance companies.
- Under the Union Budget 2021, Finance Minister declared that the initial public offering (IPO) of LIC will be implemented in FY22, as part of the consolidation in the banking and insurance sector. Though no formal market valuation has been undertaken, LIC's IPO has the potential to lift Rs. 1 lakh crore.
- In June 2021, the government extended an Rs. 50 lakh insurance coverage scheme for healthcare workers across India until the next year.
- In February 2021, the Finance Ministry declared to infuse Rs. 3,000 crore into state-owned general insurance companies to improve the general financial health of companies.
- Under Union Budget 2021, a fund of Rs. 16,000 crore has been allocated for the crop insurance scheme.

The future of the life insurance sector

The future for the life insurance sector with various changes in the regulatory framework will lead to further change in the way the sector conducts its business and engages with its customers.

The life insurance industry in the country is expected to expand by 15-16% annually for the coming three to five years.

The scope of IoT in the Indian insurance market continues to go moreover telematics and customer risk assessment. At present, there are 110+ InsurTech start-up companies in India.

Demographic factors such as the young insurable population and growing awareness of the requirement for protection and retirement planning will support the growth of Indian life insurance and will help in a growing economy too.