



## **State of general insurance in India**

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### **Abstract**

General insurance is the original form of insurance which was started as business practice and the life insurance is only the modification of the classical innovative idea of risk coverage. In the western countries the non-life insurance has been more important and more accepted and more popular form of insurance. People in many developed countries spend more on general insurance and less on life insurance. The aggregate premium of general insurance is higher in many countries. However, in most of the developing countries general insurance has been overlooked and underdeveloped. It is very important to know the condition of general insurance in India. This paper attempts to outline the state of India's general insurance sector.

**Keywords:** general insurance, non-life insurance, insurance in India

### **Introduction**

The life insurance is protection against financial loss resulting from the death of insured individual. In short, life insurance provides a person and his family the financial security and certainty to deal with the aftermath of any unseen unfortunate events, specially in the case of the death of the breadwinner of the family. Except life insurance, all other forms of insurance are included in general insurance. Therefore, general insurance comprises of insurance of property against fire, burglary etc, personal insurance such as accident and health insurance, and liability insurance which covers legal liabilities. Factory and its associated installations, along with breakdown of machinery may also come under the domain of general insurance. In short, everything except life insurance is general insurance (Gupta 2003) <sup>[2]</sup>.

Not only life general insurance is essential, it is important to protect one's property, which one might have acquired from one's hard earned income. Losses created to catastrophes such as the tsunami, earthquakes, cyclones, fire etc. leaves many homeless and penniless. Such losses can be devastating but insurance could help mitigate them. A health insurance policy which is also included in general insurance can provide financial relief to a person undergoing medical treatment. Thus insuring anything other than human life is called general insurance. Anyone who owns an asset can buy insurance to protect it against losses due to fire or theft and so on.

Besides immovable property, even movable property comes under General insurance's protective domain. There are general insurance products or policies covering the interests of automobile owners and those of cargo owners. Insurance against time bound damages caused naturally over time and those of theft shipwreck and accidents where the insured had no direct role to play in its occurrence also come under its protective purview. There are particular policies seeking to protect the hulls of ships on account of their greatest exposure to risks.

### **Importance of General Insurance**

The importance of general insurance has increased because of the reason that it covers almost everything including your home, car, bike, watch, accident, liability and health etc. There are many small and big reasons in our life to buy an insurance policy. The foremost reason that comes is the peace of mind provided by insurance against any risk or mishap. It helps a businessman to earn greater profits by assuming greater risk as the insurance covers up the risks the entrepreneur takes. For businesses involving transportation of goods and services, the same can be insured and none of the parties have to bear the loss in case of a damage or destruction. Hospital bills in case of any sickness and medical check-up are also covered by the general insurance. Car repair expenses can be claimed to a great extent in case of a car accident under motor insurance. Any unforeseen liability is also taken care by the general insurance.

Though less practiced, availability of the liability insurance is one of the most important benefits of general insurance. Liability insurance catering to the liability of a third party comes into play when there is a risk to another person's life or health on account of the owner's property and the owner is legally bound to compensate. Thus for meeting hazardous situations arising out of a legal course of action, liability insurance which is also a part of general insurance, becomes beneficial. Car owners, house owners, factory owners and medical practitioners among others may come under the domain of liability insurance. There are policies specially made keeping in mind the target group or groups of individuals whose business may come under the risk of legal suits.

Credit insurance also has its benefits. Credit insurance seeking to protect the interests of private money lenders and financiers are protected by general insurance. To cater to contingencies arising in course of travelling requisite general insurance on part of travellers is known as travellers' insurance. Pet

insurance, an idea common in the west, seeks to cover the relative expenses involved with regard to the maintenance and loss of pets. In the same way there are policies to cater the risks event management. In brief, general insurance extends protection to most of the area which are prone to any kind of risk. The policyholder in order to avail of it maximum benefit has to choose the right policy. General insurance is also important because minimization of risk is more important than saving (Jhaveri 2005) [3].

### State of General Insurance in India

Today in the modern world one must not imagine any business activities without insurance cover but the industrially developed countries realizes the importance of insurance more than the developing countries. Today, in the developed countries in general the general insurance business is more developed than the life insurance sector. General insurance in these countries grew with the development of industry, trade and commerce in the region. In the industrialized world

general insurance is more common than the life insurance in these countries (Plande 2003). General insurance penetration (general insurance premium as percentage of (GDP) and general insurance density (general insurance premium per capita in the country) is generally higher in these countries. It shows that general insurance penetration in these countries are better in the underdeveloped world. It may also be said that the country with greater influence of industrial revolution have shown better development of general insurance business. The development of industry, commerce and trade has direct bearing on the growth of insurance specially on general insurance sector. The insurance itself, after the emergence of company form of ownership has taken the form of industry and become one of the important segments of service sector. The following table shows the development of the general insurance in the countries of the world recorded in the terms of insurance penetration and insurance density. It is important that sound is an essential characteristics of a growing market (Pant, 2000) [5].

**Table 1:** Insurance Penetration and Insurance Density

International Comparison						
Countries	Insurance penetration			Insurance density		
	Total	Non-life	Life	Total	Non-life	Life
United States	8.55	4.32	4.23	2921.1	1474.4	1446.6
Canada	6.49	3.31	3.19	1375.3	700.6	674.6
Brazil	2.01	1.661.13	0.35	68.6	56.7	11.8
Mexico	1.68	0.86	0.82	84.6	43.3	41.3
Chile	3.78	1.13	2.65	163.0	48.7	114.3
United Kingdom	13.35	3.05	10.30	3244.3	741.5	2502.8
Germany	6.52	3.55	2.96	1675.7	913.5	762.2
France	8.52	2.82	5.70	2080.9	688.6	1392.3
Russia	2.13	1.34	0.78	26.8	17.0	9.9
Japan	11.17	2.30	8.87	3908.9	805.5	3103.4
South Korea	11.28	2.89	8.39	1022.8	262.3	760.5
PR China	1.63	0.61	1.02	13.3	5.0	8.3
India	1.93	0.54	1.39	8.5	2.4	6.1
Malaysia	3.88	1.72	2.16	140.4	62.3	78.1
Indonesia	1.42	0.76	0.66	9.5	5.1	4.4
South Africa	16.54	2.62	13.92	490.9	77.9	413.0
Nigeria	0.95	0.88	0.07	2.6	2.4	0.2
Kenya	3.26	2.48	0.78	9.9	7.5	2.4
Australia	9.82	3.39	6.43	2037.4	703.8	1333.6

Source: Swiss Re, SIGMA/9-2000

As we can observe from the table 1 that the general insurance penetration is better than the life insurance in industrially developed countries like US. There are many other countries in which general insurance as well as life insurance penetration are equally good. When we see the general insurance density the position of general insurance is even better than life insurance penetration. There is a list of American and European countries which were doing better in general insurance in terms of general insurance density. The table shows that in India both insurance penetration and insurance density was very low but in case of non-life it was even much lower than life insurance before the privatization i.e. 1999. US, Canada, Chilly, Mexico, Russia, Brazil, Germany all spent more on non-life insurance and less in life insurance. But in many developing countries including India

the general insurance industry were looking far behind. The general insurance penetration was just 0.54 and the general insurance density was \$ 2.4 only in 1999. We can imagine the underdevelopment of the India's general insurance sector with the fact that in the same year general insurance penetration in all other countries were greater than that of India including Nigeria. India's general insurance penetration was lowest. In the same year the general insurance density in India was also lowest, not higher than none and just equal to Nigeria.

### Non-Life Insurance: Recent Trends

At the end of the financial year 2014-15 there were 29 insurance companies registered as "General Insurance" companies. General Insurance Corporation of India, a public sector company, is an insurance company doing exclusively

reinsurance business. Agriculture Insurance Company of India Limited., a public sector company, is a specialised insurer for risk related to crop insurance/rural insurance. Export Credit and Guarantee Corporation (ECGC) of India, a public sector company, is a specialised insurer for risks related to export credit. There are seven general insurance companies in the public sector while the remaining 22 general insurance companies were in the private sector. There were four standalone health Insurance companies, in private sector, specialised in health insurance.

However, competition has largely remained price driven, with limited focus on creating new capabilities. As an industry, there has been a high degree of collaboration on areas like dismantling pools, articulating the need for more consistent product and distribution reforms, and the creation of entities like the Insurance Information Bureau (IIB). However, there is opportunity to do more in terms of raising the industry profile, creating awareness, developing trust, defining common standards and evolving self-regulation mechanisms.

The Asian market has become the major playing field for global insurers with heightened interest and increased competition for China, India, and Southeast Asia. It is also increasing the consumer centricity in the insurance industry. Rapid increase in healthcare spending and formalisation and corporatisation of the provider of health care services will further push the capacity of the industry.

Competitive strategies adopted by players have considerable impact on the growth and profitability trends in the general insurance industry. Different competition segments have different strategic imperatives based on the historical business performance, capabilities developed over the period of time and strategic objectives of the promoters. New entrants focussing on high growth across segments are likely to have low profitability in the initial years as their aim would mainly be on price or channel payout-based competition. These players may rapidly replicate the industry best practices since they would have limited legacy operating structures and assets. The same could enable profitability and growth for these players in the medium term. Public sector general insurance companies enjoy key advantages as against competition in terms of balance sheet strength, physical infrastructure, reach, channel strength and experience of the country.

Price de-tariffication provided freedom to general insurance companies to decide the premium rates in most of the product segments. Globalisation, organised retail and infra spending

will further translate into significant general insurance opportunities; the importance of SMEs will continue. Uncertain and volatile macroeconomic outlook may hamper the medium term growth.

Legal initiatives for the development of general insurance sector taken during the last decade have also helped the industry to excel. Few of the legal measures taken are worth mentioning here. IRDA's Third Party Administration (TPA) Regulation announced in 2001 has allowed the TPA companies specialized in providing health services to enter into the business. TPAs are playing very significant role in the development of the health insurance. These TPAs are very helpful to insurance companies, hospitals and the policyholders. It is minimizing organization burden of the insurance companies and helping them expand.

IRDA Insurance Broker and Corporate Agent Regulation is yet another legal initiative of the Authority which has changed the distribution landscape in post privatization period. Today the new channels entered after this Act account for significant portion of business. Entries of standalone Health Insurance companies were allowed in 2006. These health insurance companies are proving very useful both for industry and the consumers. The health insurance companies are bridging the gap of availability of the health insurance policies. Legal permission to allow the third party insurance pool in motor insurance was also a defining event in the development of motor insurance sector. Price de-trifling in 2007 was also one of the most important changes in the post privatization period related to general sector.

Even after the liberalization of the insurance sector any noteworthy change in general insurance penetration has not been witnessed. The general insurance penetration in India just increased from 0.56 in 2001 to 0.60 in 2009. In spite of the privatization of the sector and introduction of many measures taken in the last ten years the general insurance penetration also remained low. When we look at general insurance density in India there seems some improvement in the features. The general insurance density in terms of US \$ has shown some improvement in the last few years after the privatization of the sector. The general insurance density in the country was \$ 2.4 in 2001 which has increased to \$ 6.2 in 2008. The table below shows a continuous growth in the general insurance density in the country. The insurance industry became the fastest growing industry after the privatization (Chinnapa, 2006) <sup>[1]</sup>. Even then the growth of general insurance in not up to the mark.

**Table 2:** Insurance Density and Penetration in India

		<b>Insurance Density (In US \$)</b>	<b>Insurance Penetration</b>
2008	Total	47.4	4.60
	Life	41.2	4.00
	Non-Life	6.2	0.60
2007	Total	46.6	4.70
	Life	40.4	4.00
	Non-Life	6.2	0.60
2006	Total	38.4	4.80
	Life	33.2	4.10
	Non-Life	5.2	0.60
2005	Total	22.7	3.14
	Life	18.3	2.53

	Non-Life	4.4	0.61
2004	Total	19.7	3.17
	Life	15.7	2.53
	Non-Life	4.0	0.64
2003	Total	16.4	2.88
	Life	12.9	2.26
	Non-Life	3.5	0.62
2002	Total	14.7	3.26
	Life	11.7	2.59
	Non-Life	3.0	0.67
2001	Total	11.5	2.71
	Life	9.1	2.15
	Non-Life	2.4	0.56

Source: Adapted from IRDA Statistical Supplement

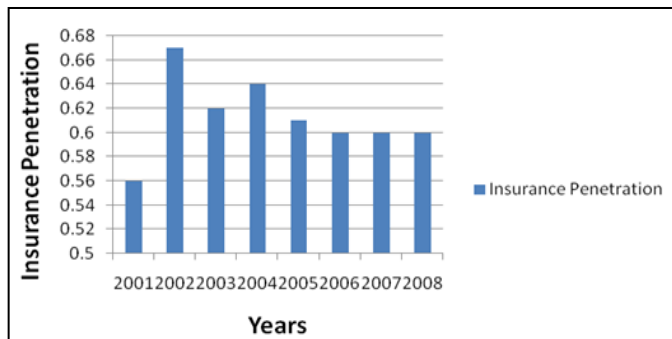


Fig 1: General Insurance Penetration

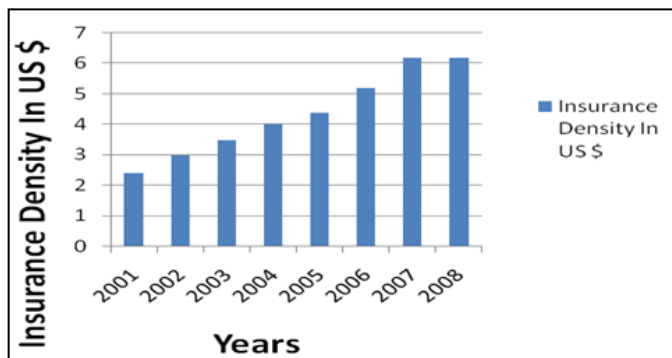


Fig 2: General Insurance Density

We may conclude from the table that there is some improvement in the general insurance penetration of the country whereas general insurance density has changed significantly during the period. In spite of this growth there general insurance business remains backward and reluctant to the policy initiative taken for the development of the general insurance sector. In the following section we will look at the other side of the industry i.e. the consumer perspective and try to find out the reason which are responsible for keeping away the consumers from general insurance.

### Causes of Under Development of General Insurance Sector

The primary or the main objective of this study is to find out the reason responsible for the low demand of the general insurance policies. As we have already discussed that general insurance covers concepts everything except life. The scope of the general insurance is much wider. Therefore the study has targeted the small businesses involved in retailing and

providing services to the consumers. The study has left the health insurance, motor insurance and household insurance. it has targeted only the small business generally involved in retailing, wholesaling and providing the services. Many works has already been done on the household and farm insurance. Health insurance has also been hot cake for last few years. The study has targeted the Aligarh in Uttar Pradesh. This study is an attempt to know that why the small business are not looking at insurance as an option for risk coverage.

### Conclusion

The general insurance is underdeveloped in the most of the developing countries. In case of India the general insurance penetration and general insurance density is specifically low. After the insurance reform, general insurance have shown any aspects of growth and development but the general insurance penetration and general insurance density is have not improved. There is overall lack of trust and lack of awareness. In addition to that they are less approached by general insurers. Affordability is not the most important issue in the underdevelopment of the general insurance. Past experiences of general insurance in India are not good and they are important diving force of the market. The companies must create awareness about the general insurance by different means. There is a need of more extensive selling effort. In some cases the companies need to develop suitable plans for the small retailers so that this segment can be targeted with more effectiveness. There is a specific need of grievance redressal general and a specific need of making the claim settlement mechanism more effective and efficient.

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