Liberalizing India’s Insurance Sector: Challenges and Opportunities

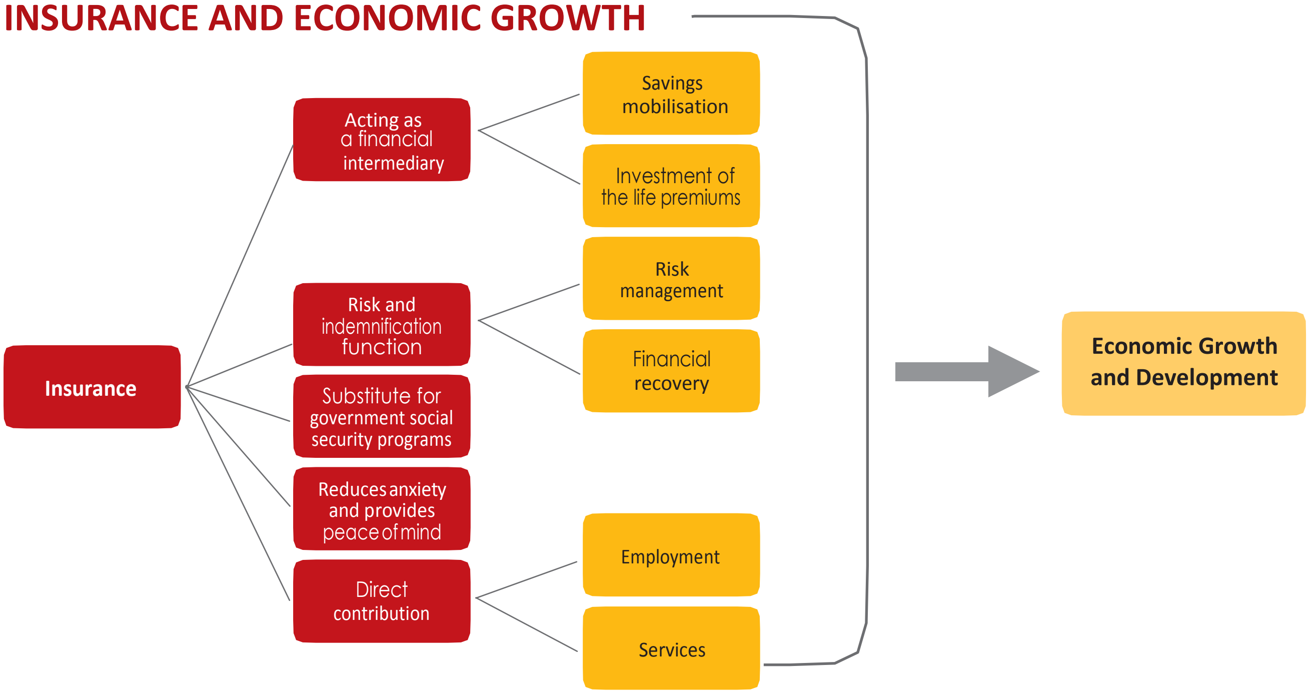
OBJECTIVES OF THE STUDY

- Evaluating the benefits of liberalisation to the Indian insurance sector
- Assessing the regulatory structure and the hindrances to foreign investment in the sector
- Comparing the Indian insurance industry with BRICS countries
- Reviewing the contribution of the insurance sector to economic growth

“A sound national insurance and reinsurance market is an essential characteristic of economic growth.”

-Proceedings of the United Nations Conference on Trade and Development, Volume I, Final Act and Report (1964)

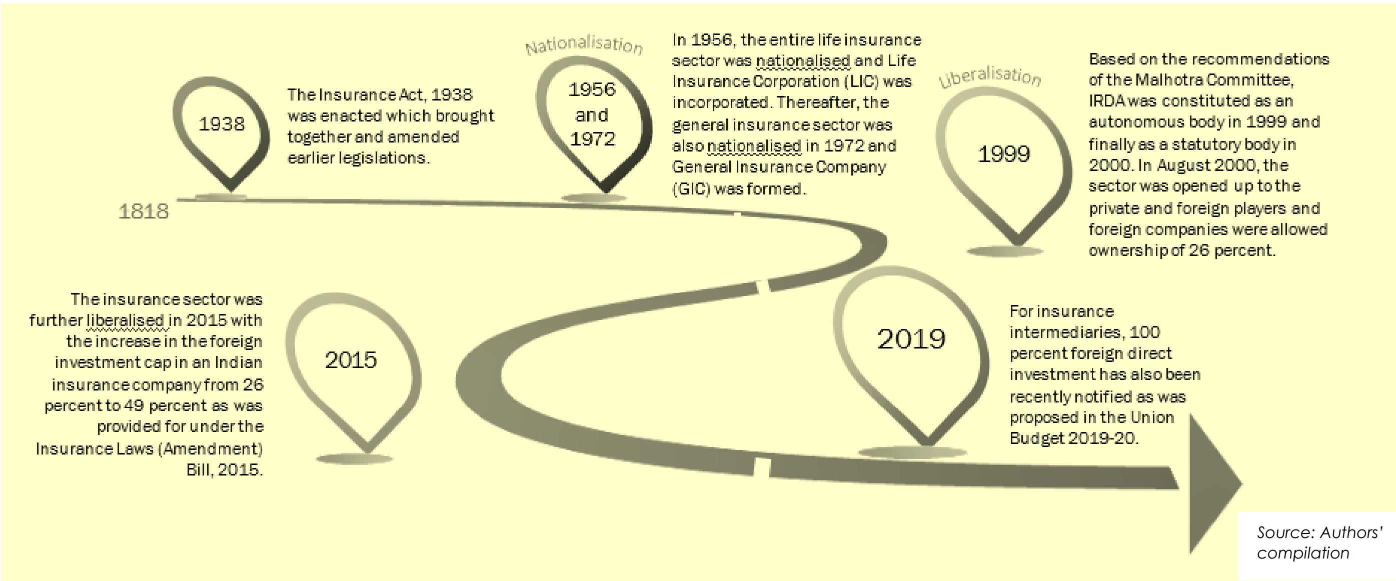
INSURANCE AND ECONOMIC GROWTH



THE INDIAN INSURANCE SECTOR

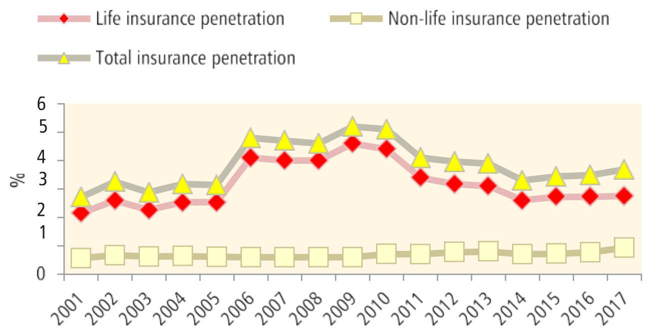
Despite gradual and steady growth, insurance penetration and density rates of the Indian insurance sector remain low in comparison to its global counterparts. The total insurance penetration and density rates stood at 3.69% and $73 respectively in 2017. Public sector insurers have a greater market share compared to the private sector insurers (Including insurers with foreign partners). In terms of premiums, life insurance segment dominates.

Regulatory Milestones of the Indian Insurance Sector



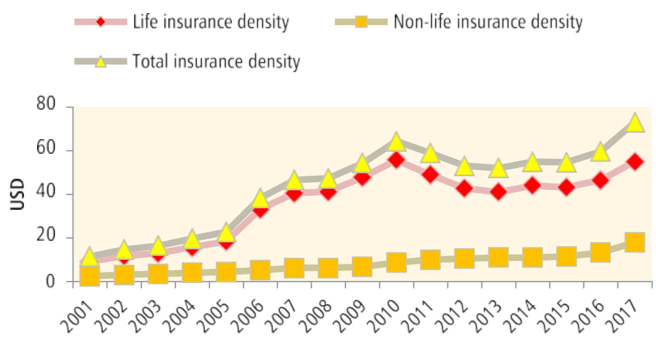
Source: Authors' compilation

Insurance Penetration Rates (2001-2017)



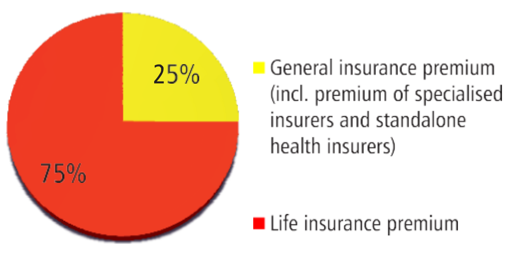
Source: IRDAI Annual Report, 2017-18

Insurance Density Rates (2001-2017)



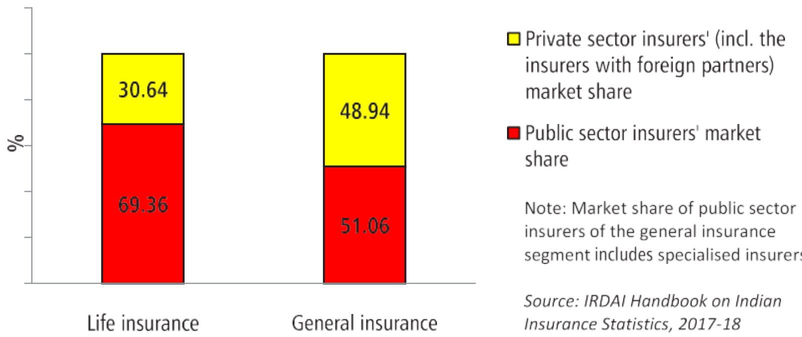
Source: IRDAI Annual Report, 2017-18

Segment-wise Premium (2017-18)



Source: IRDAI Handbook on Indian Insurance Statistics, 2017-18

Market Share of Public and Private Insurers (2017-18)



Note: Market share of public sector insurers of the general insurance segment includes specialised insurers.

Source: IRDAI Handbook on Indian Insurance Statistics, 2017-18

Barriers to Foreign Investment

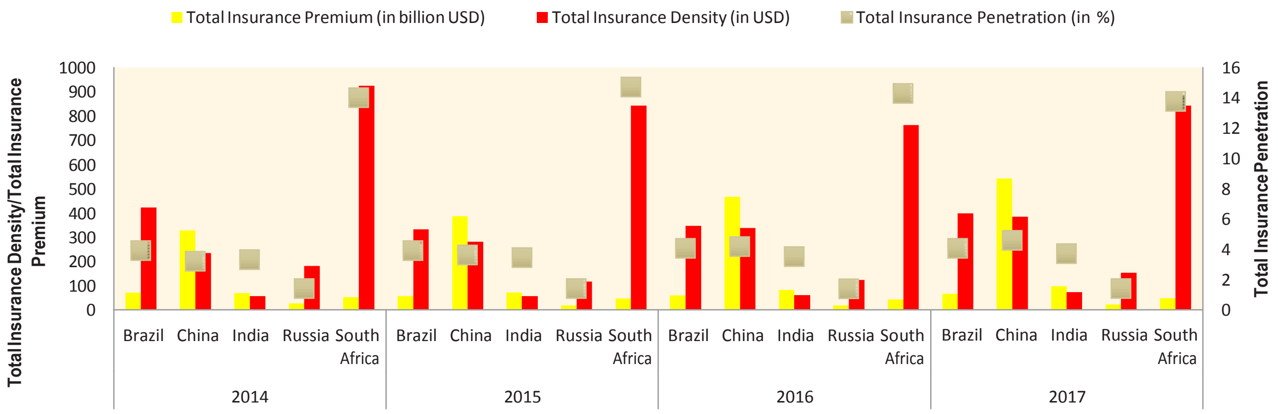
- Ownership restrictions
- Limits on promoting and diversifying insurance businesses
- Regulatory
- Price restrictions

The government is deliberating increasing the foreign direct investment limit in the insurance sector to 74 per cent from the current 49 per cent.

THE INDIAN INSURANCE INDUSTRY IN A GLOBAL CONTEXT

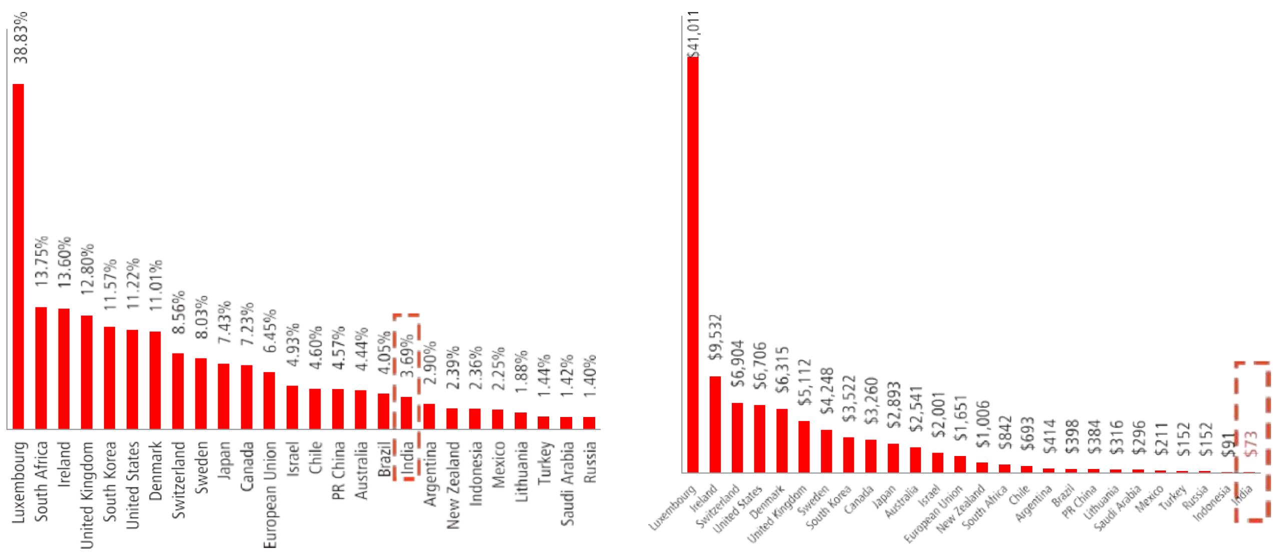
In comparison with BRICS economies (and developed countries), India lags in terms of insurance penetration and density. India's insurance density in 2017 is $73, whereas Singapore's density is $4,749 and the US' insurance density is $6,706. Globally, India's share in the insurance market was 2.0 per cent during 2017. India is ranked 10th among the 88 countries in the life insurance business and 15th in global non-life insurance markets.

Insurance Sector Key Trends: BRICS



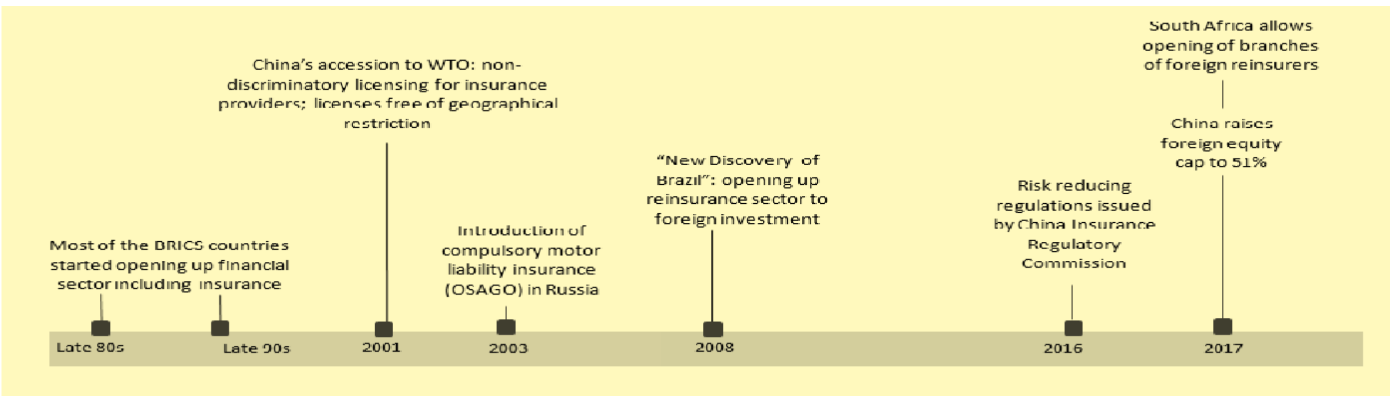
Note: Data for India pertains to the financial year.
Source: OECD.Stat; Swiss Re; Handbook on Indian Insurance Statistics 2017-18, IRDAI

Total Insurance Penetration and Density Rates: A Comparison of India with Advanced Economies



Note: Data for India, Japan, and South Korea relate to the financial year. *Source: OECD.Stat; Swiss Re; Handbook on Indian Insurance Statistics 2017-18, IRDAI*

BRICS Milestones in terms of Insurance Sector Liberalisation



IMPACT OF LIBERALIZATION ON BRICS

Brazil

- Progressive opening up of the Brazilian insurance sector has helped in growth and expansion of its insurance sector.
- The insurance sector has evolved from a participation rate of 0.8% of the GDP in 1994 to 2.55% in 2008, and the penetration ratio rose to 3.2 % in 2008 from 0.7% in 1995.
- Brazil emerged as one of the highest growth rates in insurance premiums worldwide: 12.1% between 2013 and 2014, and 10.2% between 2014 and 2015.

China

- Opening up of the Chinese economy has brought strong growth for the insurance sector with the premium income experiencing an uptick.
- Influx of financial capital after liberalization has had a significant positive effect on firm operating efficiency.
- Entry of foreign competitors has benefited domestic insurers, as their average efficiency has improved after the WTO accession.

South Africa

- Presence of foreign firms in the South African insurance market has enhanced industry competitiveness.
- Entry of foreign firms has also encouraged higher price competition and improved product offering, service quality, and product development.

India

- Benefits of liberalization on India's insurance sector can be seen in terms of penetration and density, product innovation, introduction of alternate channels, distribution, and customer services.
- Opening up of the sector has led to huge growth in the life insurance business and LIC
- Significant capital flows to the insurance sector due to the earlier FDI limit hike

Key findings of study:

Hiking the FDI limit will be beneficial for the industry

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