



## A STUDY ON GLOBAL INSURANCE PENETRATION AT PRESENT SCENARIO

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### ABSTRACT

*Insurance penetration is measured as the percentage of insurance premium to GDP; insurance density is calculated as the ratio of premium to population (per capita premium). Insurance Penetration - refers to a product's sales volume relative to the sales volume of competing products, usually expressed as a ratio of premium to another financial measure like Gross Domestic Product. "The insurance penetration has started its northward journey is evident from the fact that it has increased from 3.3% in 2014 to 3.44% in 2015 on the back of various insurance schemes launched by the government," During the first decade of the sector's liberalisation, there has been a consistent rise in insurance penetration from 2.71% in 2001 to 5.20% in 2009. However, since then, the level of penetration has been volatile and remained below the peak. It declined from 3.9 to 3.3% in 2014 due to certain regulatory changes and unfavourable market conditions. India's insurance penetration as a whole in 2015 was 3.4%, against the world average of 6.2%. An attempt has been made to study penetration in the world with reference to India.*

**Keywords:** Insurance, Penetration, Premium.

### 1. INTRODUCTION:

The insurance sector plays a very important role in the development of any economy. It is necessary for the economic and overall development of any country. In today's competitive economy, the business, finance and insurance sector plays a very important role. It provides long-term funds for infrastructure development and at the same time strengthens the risk taking ability. The contribution of insurance sector to economic development hardly affects financial intermediation and it only a marginal contributor to the country's Gross Domestic Product.

### 2. REVIEW OF LITERATURE:

A detailed review of literature on the subject has given insight into various aspects related to insurance penetration. The Summary of the review is presented herewith.

**Somnath Das and Mihir Kumar Shome:** Enhancement of Foreign Direct Investment inflow, Education, and Openness Ratio show positive value for the growth of Insurance Penetration whereas Global Terrorism Index negatively affects the development of Insurance sector as per expectation. The result of Life expectancy indicates that the dependency on



insurance sector reduces if average survival capacity of human being increases. Regarding dependency ratio, it can be concluded that improvement of dependency reduces real income per capita which creates a negative impact on the development of Insurance Penetration. The positive impact of inflation rate may represent that at the time of inflation people are suffered by fear psychosis about their future and they want to invest more amounts in Insurance sector. Labour productivity has a negative effect on penetration of insurance which indicates more productive labour want to invest money other than insurance sector.

**K.V.R. Satya Kumar, B. Radha, Gella.sireesha:** Industry has seen stable growth rate in premium in all years except 2011-12, 2012-13 sector overall penetration and density is only USD 53.2. Policies sold by individual agents in overall industry are stable and for the period of 2012-13, life insurers issued 441.87 lakh new policies. In 2008 private sector has opened many offices, LIC open many in number during 2009. The Indian insurance industry has undergone transformational changes since 2000 when the industry was liberalized. To ensure a seamless growth in business few important factors should some of these include: Distribution channels, Focus on financial inclusion and Consumer needs and preferences. Life insurance is a big savings vehicle along with banking in such uncertain economic environment and so we expect the industry to fare reasonably well.

### 3. OBJECTIVE OF THE STUDY:

1. To study the factors that effects the insurance penetration in India
2. To study and compare the insurance penetration in the world

### 4. RESEARCH METHODOLOGY:

This study is an exploratory research to examine the insurance penetration in the world with reference to India. Information sourced for this study is based on secondary data from various sources such as books, annual reports, journals, and internet source.

**Data Collection** This study was conducted based on secondary data i.e., 5 years data (2011 to 2015) for empirically to examine the above hypothesis. Data of this study were gathered from the website of Insurance Regulatory and Development Authority (IRDA) and other related information was gathered from the official website of IMF, ILO etc.

### 5. FACTORS THAT HELPS IN INCREASE IN INSURANCE PENETRATION IN INDIA:

**1. Enhanced tax breaks can play a role in incentivising insurance purchase Incentivise health insurance:** A classic case in point is health insurance. According to the World Bank, India's health expenditure as percentage of GDP in 2014 was 4.7%, lower than the world average of 9.9%. Low public expenditure on healthcare can prove detrimental to the savings of patients and their families, as it increases their out-of-pocket expenditure. To address this issue, a universal health care scheme will be a welcome move to cover vulnerable sections of the population. Moreover, increasing the tax exemption to 100% of premiums paid for private insurance can motivate people to buy additional health cover. This will also help increase



health insurance penetration, which was a mere 0.20% of GDP in FY15. Lower service tax burden on term life and health insurance: Swiss Re's 2015 Mortality Protection Gap study found that for every \$100 needed for protection in India, there is a massive protection gap of \$92.2. Mortality protection is at the core of life insurance, and the proposed Goods and Service Tax (GST) on insurance is reported to be in the range of 18-24%, which is higher than the 15% service tax levied currently. At minimum, the government can consider exempting pure term plans and health insurance from GST or service tax. These products provide basic protection and are not purchased for financial returns. Encourage long term savings products: In 2015, our elderly made up 7.5% of the population, and according to UN estimates, this proportion will increase almost threefold to 19% (324 million) by 2050.

## **2. Mandatory home insurance can reduce the loss burden of natural catastrophes:**

India is vulnerable to a number of natural catastrophe risks including flooding, earthquakes, storms, droughts and landslides. There is a large property protection gap in India according to Swiss Re's 2015 Property Protection Gap study. In our sigma study 'Under insurance of property risks: closing the gap', we found that India is one of the country's most under insured relative to GDP, with penetration for property insurance as low as 0.07% as compared to other markets like Brazil (0.36%), and Russia (0.23%). With the young workforce buying homes and the government aiming for affordable housing for all, there is a need for home insurance at least against natural perils in the top 10 urban areas. Separate tax exemptions for home insurance, can motivate people to buy such cover. As a next step, mandatory home insurance can be considered which will not only provide protection against natural catastrophes, but can also reduce the burden of these losses on Government coffers.

## **3. Digitisation can make insurance products viable and accessible:**

After demonetisation, digital payments through various schemes are being encouraged and insurers now provide discounts on insurance products bought online. They are taking this a step further by investing in digital marketing and underwriting platforms to develop a future ready insurance business. We need to continue these efforts even as insurers globally now partner with tech-savvy start ups as a part of their new strategy. CB Insights data shows that in 2016, insurers around the world invested in over 100 insurance tech startups. India needs startups that can leverage digital distribution platforms to make insurance accessible across the country, and also build big data and machine learning capabilities to improve insurance risk assessment.

## **4. Introduction of New Insurance schemes by the government:**

Insurance penetration in India is expected to cross the 4% mark by the end of the year amid proliferation of insurance schemes. "The insurance penetration has started its northward journey is evident from the fact that it has increased from 3.3% in 2014 to 3.44% in 2015 on the back of various insurance schemes launched by the government"( Assocham report-2016).

During the first decade of the sector's liberalisation, there has been a consistent rise in insurance penetration from 2.71% in 2001 to 5.20% in 2009. However, since then, the level of penetration has been volatile and remained below the peak. It declined from 3.9 to 3.3% in 2014 due to certain regulatory changes and unfavourable market conditions. India's insurance penetration as a whole in 2015 was 3.4%, against the world average of 6.2%. "Despite the gentle rise in insurance penetration which is percentage of insurance premium with reference to the Gross Domestic Product (GDP), it is still far below the global average," the report observed. "The number of lives covered under health Insurance policies during 2015-16 was 36 crore which is approximately 30% of India's total population. The number has seen an increase every subsequent year as 28.80 crore people had the policy in the previous fiscal.

As part of social security initiatives, the government has launched low premium insurance schemes both life and non-life in 2015, it said, adding that last year, it introduced crop insurance. With the objective of providing insurance cover to all, the government launched Pradhan Mantri Suraksha Bima Yojna (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJBY) in 2015. PMSBY offers a renewable one-year accidental death-cum-disability cover of Rs 2 lakh for partial/permanent disability to all savings bank account holders in the age group of 18-70 years for a premium of Rs 12 per annum per subscriber. Besides, Pradhan Mantri Fasal Bima Yojana (PMFBY) launched last year to provide financial support to farmers suffering crop loss or damage arising out of unforeseen events will also add to insurance penetration. PMFBY has been approved for implementation in all states and Union Territories from Kharif 2016 season in place of National Agricultural Insurance Scheme (NAIS) and Modified National Agricultural Insurance Scheme (MNAIS). "PMFBY is a significant improvement over the earlier schemes on several counts and comprehensive risk coverage from pre-sowing to post-harvest losses are some of the salient points. A budget provision of Rs.5,501.15 crore has been made for the scheme for the current crop season," (Assocham-2016).

The Insurance Regulatory and Development Authority (IRDAI) had recently brought in the new concept of intermediaries in the insurance distribution known as Insurance Marketing Firm (IMF). The authority had formulated the regulations which came into effect from the date of gazette notification dated 21.01.2015. IMFs are expected to help in increasing insurance penetration.

## 6. COMPARE THE INSURANCE PENETRATION IN THE WORLD

**Tabale.1 Insurance penetration comparison**

(in percentages)

Countries /region	2011			2012			2013			2014			2015		
	life	Non-life	total	life	No n-life	total	life	No n-life	total	life	No n-life	total	life	Non-life	total
<b>India</b>	3.4	0.7	4.1	3.2	0.8	4.0	3.10	0.80	3.90	2.6	0.7	3.3	2.7	0.7	3.4
<b>Asian countries</b>	56.3	19.1	75.4	58.4	19.7	78.8	59.6	19.5	78.7	60.9	19.9	80.9	63	19.9	82.9
<b>world</b>	3.8	2.8	6.6	3.7	2.8	6.5	3.50	2.80	6.30	3.4	2.7	6.2	3.5	2.8	6.2

**Source: IRDA Annual Report 2016**

Table 1 show that globally the share of the total insurance penetration of India in 2011 is 4.1%. Since then it has declined from 4.0 percent from 2011 to 3.4 percent in 2015. Out of it the life insurance penetration declined from 3.4 per cent in 2011 to 3.2 percent in 2012. Since then, it has exhibited a declining trend. The Non-life insurance penetration stagnated from 2011 to 2015 as if represented 0.7 percentages only.

In the case of Asian countries the total insurance penetration is 75.4 percentages in 2011 and raised to 82.9 percentage in 2015.out of it the life insurance penetration is a increasing trend as it is 56.3 percentage in 2011 to 63 percentage in 2015. The non-life insurance penetration also noted increasing trend from 19.1 percentages in 2011 to 19.7 percentage in 2012. Since then, it has exhibited stagnated till 2015.

The world insurance penetration is 6.6 percentages in 2011 and slightly declined to 6.2 percentages in 2015. Out of it the life insurance penetration is declining trend from 3.8 percentages in 2011 to 3.5 percentage in 2015. The Non-life insurance penetration stagnated from 2011 to 2015 as it represented 2.8 percentages only.

It indicates that insurance penetration is depending not only marketing condition but also in various other demographical factors.

**Table.2 Insurance penetration growth rate**

(in percentages)

Year	India	Asian countries	World
2011	4.1	75.4	6.6
2012	4	78.8	6.5
2013	3.9	78.7	6.3
2014	3.3	80.9	6.2
2015	3.4	82.9	6.2
Total	18.7	396.7	31.8
CAGR	-0.03675	0.01914	-0.01243
AVERAGE	3.74	79.34	6.36

**Source: IRDA Annual Report 2016**

Table 2 shows the compound annual growth rate of Insurance penetration during the year from 2011 to 2015. It indicates India's CAGR is in negative of 0.036 percent when compared to world CAGR of negative 0.12 percent.

However, Asian countries CAGR is indicated positive growth rate of 0.019 it can be inferred that the other Asian countries penetration growth rate is better than the Indian Insurance penetration growth rate.

**Table.3 Insurance penetration ranking (total)**

(in percentages)

countries	2011		2012		2013		2014		2015	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Australia	6.00	11	5.6	11	5.2	13	6.0	12	5.7	12
brazil	3.20	16	3.7	15	4.00	15	3.90	15	3.9	15
France	9.5	8	8.9	7	9.00	8	9.1	8	9.3	7
Germany	6.8	10	6.7	9	6.70	10	6.5	11	6.2	11
Russia	2.4	18	1.3	17	1.30	18	1.4	18	1.4	18
South Africa	12.9	2			15.40	2	14.0	3	14.7	3
Switzerland	10.0	7	9.6	6	9.60	7	9.2	7	9.2	8
United kingdom	11.8	3	11.3	5	11.50	5	10.6	6	10.0	6
United states	8.1	9	8.2	8	7.50	9	7.3	9	7.3	9
Hong Kong	11.4	5	12.4	2	13.20	3	14.2	2	14.8	2
India	4.1	15	4.0	14	3.90	16	3.3	16	3.4	17
Japan	11.0	6	11.4	4	11.10	6	10.8	5	10.8	5
Malaysia	5.1	13	4.8	13	4.80	14	4.8	14	5.1	14
Pakistan	0.7	20	0.7	19	0.70	20	0.8	20	0.8	20
PR china	3.0	17	3.0	16	3.00	17	3.2	17	3.6	16
Singapore	5.9	12	6.0	10	5.90	11	6.7	10	7.3	10
South Korea	11.6	4	12.1	3	11.90	4	11.3	4	11.4	4





Srilanka	1.2	19	1.2	18	1.10	19	1.1	19	1.2	19
Taiwan	17.0	1	18.2	1	17.60	1	18.9	1	19.0	1
Thailand	4.4	14	5.0	12	5.50	12	5.8	13	5.5	13

**Source: IRDA Annual Report 2016**

Table 3 shows that insurance penetration India is ranked 15<sup>th</sup> among 20 countries, and Taiwan is ranked 1<sup>st</sup>, South Africa ranked 2<sup>nd</sup> and united kingdom is ranked 3<sup>rd</sup>. the Pakistan is ranked last among 20 countries in 2011. In the year 2012 insurance penetration, India is ranked 14<sup>th</sup> among 19 countries. Taiwan is ranked 1<sup>st</sup>, Hong Kong is ranked 2<sup>nd</sup> and South Korea is ranked 3<sup>rd</sup>. The Pakistan is ranked last among 19 countries in 2012. In the year 2013 insurance penetration, India is ranked 16<sup>th</sup> among 20 countries. Taiwan is ranked 1<sup>st</sup>, South Africa ranked 2<sup>nd</sup> and Hong Kong is ranked 3<sup>rd</sup>. The Pakistan is ranked last among 20 countries for which the data was published by Swiss Re in 2013.

In the year 2014 insurance penetration, India is ranked 16<sup>th</sup> among 20 countries. Taiwan is ranked 1<sup>st</sup>, Hong Kong is ranked 2<sup>nd</sup> and South Africa is ranked 3<sup>rd</sup>. The Pakistan is ranked last among 20 countries in 2014. In the year 2015 insurance penetration, India is ranked 17<sup>th</sup> among 20 countries. Taiwan is ranked 1<sup>st</sup>, Hong Kong is ranked 2<sup>nd</sup> and South Africa is ranked 3<sup>rd</sup>. The Pakistan is ranked last among 20 countries for which the data was published by Swiss Re in 2015.

It indicates Taiwan is ranked 1<sup>st</sup> and Pakistan is ranked last among 20 countries of insurance penetration for which the data was published by Swiss Re.

## 7. CONCLUSION:

The insurance penetration has started its northward journey is evident from the fact that it has increased from 3.3% in 2014 to 3.44% in 2015 on the back of various insurance schemes launched by the government,” During the first decade of the sector’s liberalisation, there has been a consistent rise in insurance penetration from 2.71% in 2001 to 5.20% in 2009. However, since then, the level of penetration has been volatile and remained below the peak. It declined from 3.9 to 3.3% in 2014 due to certain regulatory changes and unfavourable market conditions. India’s insurance penetration as a whole in 2015 was 3.4%, against the world average of 6.2%. India’s CAGR is in negative of 0.036 percent when compared to world CAGR of negative 0.12 percent. Taiwan is ranked 1<sup>st</sup> and Pakistan is ranked last among 20 countries of insurance penetration for which the data was published by Swiss Re. insurance penetration is depending not only marketing condition but also in various other demographical factors.

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