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Life Insurance for Risk Mitigation: An Analysis of the Ever-slow Transition in Indian Insurance Sector

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Abstract:

Life insurance in India has always been subject to several deviations from the actual financial instrument that it is. Our history of using insurance as a tool for investment has led to a substantial population in the country remaining uninsured and even the ones who do possess insurance cover are underinsured. Several researches and studies have revealed this condition, however there has been no concrete modus operandi formed to tackle this situation by either the regulators or the insurance service providers. The risk exposure of today's urban and rural population is increasing exponentially and needs to be addressed on priority. This can be seen as an opportunity to rectify the mistakes of past and truly utilize life insurance as what it is supposed to be – an effective risk mitigation tool.

Introduction:

Life insurance in India has a history of deviation. Though as concept, life insurance is supposed to be a risk mitigation tool, Indian insurance players have always promoted this as an instrument of investment. This outlook has only resulted in a gross misunderstanding pertaining to this effective financial risk mitigation instruments across the populace of this nation. To understand the reason for such twisted consumerism towards life insurance, it is important to understand its history in India.

Historically, the presence of insurance as a concept can be seen in the works of Manu (Manusmriti), Yagnavalkya (Dharmashastra) and Kautilya (Arthashastra). The writings in these scriptures can be considered as a pre-cursor to modern-day insurance, as it speaks of pooling resources to be re-distributed among the populace during calamities. This information, like several other concepts from our history has been forgotten or misrepresented in the present day.

The advent of life insurance in India was with the establishment of Oriental Life Insurance Company in Kolkata. With the enactment of British Insurance Act in 1870 the Indian insurance market was dominated by foreign insurance players and Indian players were left to fend for themselves amid such stiff competition. The first step towards regulating insurance business in the country was taken in 1912, in the form of, Indian Life Assurance Companies Act. This was followed by several amendments. However, by 1950, the highly competitive and aggressive insurance market was riddled with accusations of gross malpractice and unfair trade practices. The only solution was nationalizing the insurance business. Thus the mammoth named, Life Insurance Corporation of India came into existence with the incorporation of 245 Indian and foreign insurance companies.

LIC of India has a monopoly until the 90's when the insurance market was again opened for private players. This action resulted in a rush of private players from within and outside the country trying to gain a firm foothold. Until, early 2000's the investment in Life Insurance saw one of the fastest growth trends ever in the history of this nation. This growth was again marred by the 2008 market crash that resulted in the downfall of Unit Linked Insurance Products, which up until that time was the highest selling life insurance offering.

Throughout all this, life insurance was pegged as an investment product and the sale of endowment plans determined the performance of the industry. Even till date term insurance plans find very few takers, in spite of increasing awareness and knowledge amongst the Indian populace.

Literature review:

According to S. Rao, (2000) Indian insurance market is under-developed and has a huge potential. The rural areas can ensure growth, however making successful inroads into these sections is still a distant dream. In her study titled, "A study of the Impact of Liberalization on The Indian Life Insurance Industry", Sobita Devi (2011), concluded that the density of insurance has a direct correlation with the GDP performance of the country. The study conducted by Insurance Time

Magazine, identified increase in insurance prices with each major natural catastrophe as a major factor resulting in low penetration in the country.

Arpita Khare (2012), noted that, even though most insurance companies have started offering life insurance online, customers are apprehensive of purchasing a policy without human intervention. Dr. P. B. Ashturkar (2015) observed that the companies and regulatory bodies have become more consumer-centric while settlement of claims and have considerable reduced the claim settlement duration.

In spite of the above changes and advancements in technology, Max Life Insurance and Kantar IMRB's study of "India Protection Quotient" clearly indicates that the urban population though aware of the importance of being insured, shows very less uptake of life insurance, particularly term life insurance, resulting in a vast majority of the population being uninsured or underinsured.

Research Methodology:

The paper is descriptive in nature and aims to put forward the current status of life insurance performance in the Indian market and probable steps that could be taken to ensure further growth.

The data collated in this paper is from secondary sources like, published research papers from other scholars, reports for regulatory bodies published periodically and from independent research carried out by research firms.

Opinions from subject matter experts, currently operating in the life insurance industry, have also been incorporated in the paper.

Data Analysis & Interpretation:

As per the "World Insurance in 2018" report published by Swiss Re, global economic growth supported the insurance industry. The global direct premiums surpassed the USD 5 trillion mark, which was 6.1% of the global GDP. Life insurance premium increased globally, by a small margin of 0.2%. This was a stark deceleration compared to 2017, mainly due to the reduction in premium from China, which was the largest contributor for global life insurance premium.

India's share in the global insurance market was 1.92% during 2018. Within the country life insurance premium contributes to approximately 73% of the total premium collected. This is predominantly due to the high premium ticket size of endowment plans which has more uptakes in the market. Group Life Insurance business also has a contribution in this. This can be clearly seen by observing the growth of life insurance business in the country which was at 7.7% as compared to general insurance business which grew at 14%.

Here endowment insurance plans provide benefits only on survival of the policy holder. Term plans on the other hand provide benefits on death of the policy holder and is in reality the purest form of insurance, as its key role is risk mitigation.

It is imperative to look at the insurance penetration and insurance density to further understand the impact it has on the nation and its economy. The below table provides the journey of insurance penetration and density in India for both life and non-life (general insurance) products.

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INSURANCE PENETRATION AND DENSITY IN INDIA

Year	Life		Non Life		Industry	
	Density (USD)	Penetration (percentage	Density (USD)	Penetration (percentage)	Density (USD)	Penetration (percentage)
2001	9.10	2.15	2.40	0.56	11.50	2.71
2002	11.70	2.59	3.00	0.67	14.70	3.26
2003	12.90	2.26	3.50	0.62	16.40	2.88
2004	15.70	2.53	4.00	0.64	19.70	3.17
2005	18.30	2.53	4.40	0.61	22.70	3.14
2006	33.20	4.10	5.20	0.60	38.40	4.80
2007	40.40	4.00	6.20	0.60	46.60	4.70
2008	41.20	4.00	6.20	0.60	47.40	4.60
2009	47.70	4.60	6.70	0.60	54.30	5.20
2010	55.70	4.40	8.70	0.71	64.40	5.10
2011	49.00	3.40	10.00	0.70	59.00	4.10
2012	42.70	3.17	10.50	0.78	53.20	3.96
2013	41.00	3.10	11.00	0.80	52.00	3.90
2014	44.00	2.60	11.00	0.70	55.00	3.30
2015	43.20	2.72	11.50	0.72	54.70	3.44
2016	46.50	2.72	13.20	0.77	59.70	3.49
2017	55.00	2.76	18.00	0.93	73.00	3.69
2018	55.00	2.74	19.00	0.97	74.00	3.70

Note: *1. Insurance density is measured as ratio of premium (in USD) to total population.*
2. Insurance penetration is measured as ratio of premium (in USD) to GDP (in USD).
Source: *Swiss Re, Sigma, Various Issues.*

It is evidently seen from the above data that non-life/ general insurance business in India has seen a much steadier and stable growth. However, the life insurance business has faced several pitfalls resulting in de-growth from 2010.

NEW INDIVIDUAL POLICIES
Source: IRDAI Annual Report (2018-19)
ISSU… 2018-19
(in lakh)

Insurer	2017-18	2018-19
LIC	213.38 (5.99)	214.04 (0.31)
Private Sector	68.59 (8.47)	72.44 (5.61)
Total	**281.97**	**286.48**

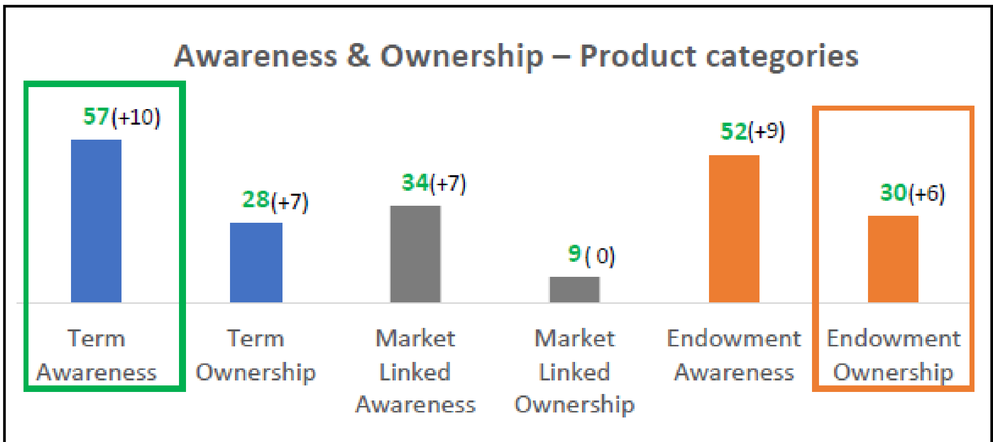
Source: IRDAI Annual Report (2018-19)

NOTE: *Figures in bracket indicates the growth (in percent) over the previous year in percentage terms.*

LIC of India still remains the market leader with issuance of 214.04 lakh new policies as compared to 72.44 lakh policies by private players. Here again it is important to note that while the 2017-18 showed a growth of 6.58% compared to previous year, the growth in 2018-19 was just 1.70%. In terms of premium contribution, LIC of India provides 66.42% of the total premium vis-a-vis 33.80% by the private insurance companies.

While the sector is showing evidences of good performance, the cause of concern remains the attitude of consumers towards life insurance policies. In their research, Kantar IMRB identified that within the urban population, wherein the insurance awareness and uptake is high, 65% of their respondents possessed a life insurance policy with only 21% having a term life insurance. It was additionally found that out of the group that claimed to have a term life insurance, 57% were not aware of the sum assured guaranteed by the insurer against their policy.

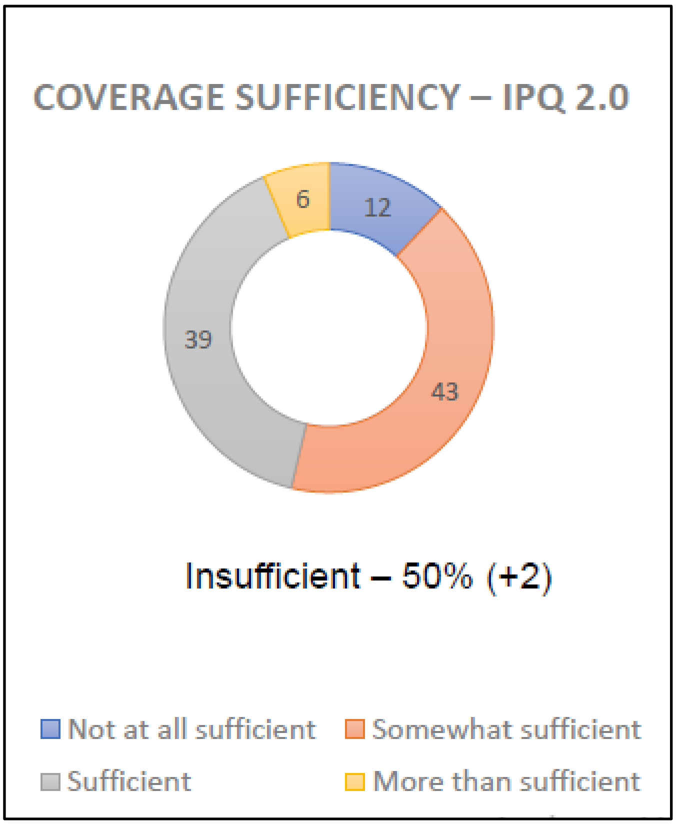
Close to 70% of the respondents felt that term life insurance is only relevant for the breadwinner in the family.



Source: Max Life Insurance. + and - represent change compared to IPQ 1.0 released in 2019.

The above image from Kantar IMRB's report shows us how deep the gap is between awareness and actual ownership. Thought he overall awareness of term life insurance is higher than endowment products. The ownership is substantially low leading to poor protection quotient in the India consumers.

From a consumer behavior point of view, companies have been able to generate awareness, however the focus has not been on generating the desire for availing this product and further push them into the action of buying it.



Another important factor to be noted is the insufficiency of coverage. The research also showed that more than 50% individuals were insufficiently covered.

It is ideal for every consumer to know their exact Human Life Value (HLV). Human life value is nothing but capitalized value of an individual's life for the rest of their life and is calculated on the basis of current inflation rate. Insurers use this to calculate the maximum insurance cover an individual can avail.

The problem here is two-fold. First is the constant inclination of individual customers towards endowment plans and secondly the premium ticket size of endowment plans are substantially higher than that of term insurance plans. Due to this consumer choose insurance plans with very low sum assured and remain under-insured.

Conclusion:

It has been observed that several private insurance firms have understood the importance of pushing term life plans, partly due to pressure of market saturation. There are several advertising campaigns that openly discuss death of the consumer, which at one point in time was considered a taboo as people would take offence. Death is never easily accepted in the Indian society and the very mention of that word causes distress in individual customers. However, with growing awareness, this mindset has started seeing a transition, even it at snail's pace. This is also one of the key reasons why term life insurance plans have the least take up in tier 2-3 towns and villages.

The current COVID pandemic has however, provided and opportunity for insurance players to drive their point into the consumer minds. Online insurance aggregators like Policybazaar.com has already started utilizing this situation to promote term life insurance purchase on their platform with aggressive promotional strategies.

The transition of Indian insurance market has been a slow process and this pace leads insurers to lose sight and push more towards investment driven insurance products. The problem also lies in the way insurance business is reported by the IRDAI, which governs the business in the country. A clear demarcation of term and endowment plan uptake should be incorporated in the reporting structure and more than just premium collection and policy numbers, the Protection Quotient should also be taken into consideration to judge the performance of the industry as well as the public and private players operating in it.

Lastly the awareness level needs to deepen. Merely knowing about a particular product does not constitute to awareness. It is important that consumers are aware of concepts like HLV to understand what is the optimum insurance coverage that they should avail to ensure that they and their families are protected from risks and uncertainties of future

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