INDIA IN THE WORLD INSURANCE MARKET : FUTURE DIRECTIONS

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Insurance is like a social device for pooling and dividing risks. The recently opened Indian insurance sector is quite underdeveloped and can be regarded to be in its infancy stage of market development. There is a big opportunity lying in India compared to the world insurance market. Truly, the cost of life insurance (with increased expectations of life and reduced mortality) must come down and this advantage can be encashed by the new entrants. The time in India is ripe to witness insurance products being bought by the customers rather than sold by the agents. Overall, the insurance sector is likely to boom with entry of foreign participants. With the deregulation in the insurance sector, and banking sector already opened-up, the financial sector faces new challenges to management. With the competition is in the offing, the situation is expected to experience a definite turning point.

Insurance is a method by which risks can be shifted or divided by sharing or spreading them over those who are exposed to or are expected getting exposed to such losses. These risks can be forecasted and probability determined. Insurance could be of anything to which a sufficiently large number of people are exposed, like losing health, life or fortune. More appropriately, it can be detailed as insurance of property, pecuniary, personal, liability, transportation, life or pensions and annuities. Broadly, these can be grouped as non-life insurance (of property, pecuniary, personal, liability and transportation) and life insurance (death or pensions and annuities - survival benefits). Life insurance, for example, is an integral part of any persons' perception of life - the individual survival benefits and the benefits associated with individuals' death.

Table 1 : India's Insurance Sector

	1993-94		1997-98		
	(in Rs. Cr.)	% of Banking and Insurance	(in Rs. Cr.)	% of Banking and Insurance	% change in Five Years
Total Insurance	5409	13%	5692	9%	5-23%
of Which					
Life Insurance (including Postal Life)	2445	45.20%	3710	65.20%	51.73%
Non-life Insurance	2964	54.80%	1982	34.80%	–33.13%
GDP at Factor Cost (at 1993-94 prices)	799077	0.68%	1049191	0.54%	31.30%

Source : National Accounts Statistics, CSO, 1999

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They have long-term implications, with the purpose of protecting against the contingencies of life and are adorned with major saving component. Thus, insurance is more like a social device for pooling and dividing risks amongst a large number of persons who are exposed/expected to be exposed to such irreparable losses or hardships. Insurance is guided by customer's passive need for risk aversion. The need is passive because there could be considerations like social security, investment or tax saving for insuring oneself against the possibility of contacting such risks and hazards. This passive need has to be turned into positive want by the insured, not by the insurer as is happening in India. Table 1 shows performance of India's insurance sector.

For the five years under review, it is visible that the insurance sector has increased its presence in absolute terms by 5-23% mainly due to increase in life insurance (including postal life insurance). The non-life insurance has significantly declined in absolute terms by 33.13% during the same period. As percent of GDP (at factor cost), insurance was a meagre 0.68% in 1993-94 which further eroded to 0.54% in 1997-98. Thus, insurance sector is quite under-developed and can be regarded to be in its infancy stage of market development.

The opening-up of the insurance sector in December 1999 has boosted the morale of a host of foreign partners as can be seen from Table 2. Competition in India is likely to come up and take shape and the insurance market will get going with such foreign partners.

Table 2 : Foreign Partners of Indian Private Insurers

Sl. No.	Private Indian Insurer	Foreign Partner	Sl. No.	Private Indian Insurer	Foreign Partner
1	Aditya Birla Group	Sun Life	11.	Max India	New York Life
2*	Alpic Finance	Allianz	12	Nusli Wadia	CGU General
3*	Centurion Bank	Canada Life	13	Sanmar Group	GIO
4*	Cholamandalam Group	AXA	14	Tata Group	AIG
			15	Vysya Bank	ING Insurance
5*	Dabur	AllState	16	Bombay Dying	Commercial General Union
6	Godrej Group	J.Rothschild			
7†	HDFC Bank	Standard Life	17	Hero Honda	Zurich
8*	Hindustan Times	CGU Life	18	Murugappa	AXA Guardian
9†	ICICI	Prudential	19	Ranbaxy Family (Manipal Group)	Cigna
10*	M.A.Chidambaram	Metlife			

Note : * Brkan Alliance † Approved for life insurance also
Sources : A&M, Jan. 15, 2000; Business Today, April 7, 2000.

Moreover, there is a big opportunity lying in India compared to the world insurance market as can be seen from the following data in Table 3. Service exports/imports refer to economic output of intangible commodities that may be produced, transferred and consumed at the same time. The export and import of insurance and financial services cover various types of insurances provided to non-residents by resident insurers and vice-versa, and financial intermediary and auxiliary services (except those of insurance enterprises and pension funds) exchanges between residents and non-resident. However, insurance transactions are often recorded as premium less claims, giving it a downward bias in the value of services reported in the balance of payment account.

Table 3 : The World Trade in Insurance and Financial Services

	Exports of Insurance and Financial Services (% of total service exports)		Imports of Insurance and Financial Services (% of total service exports)	
	1980	1997	1980	1997
India	1.2%	2.6%	5.3%	5.2%
Low Income Economies	2.9%	2.3%	4.8%	4.3%
Middle Income Economies	4.9%	2.6%	4.4%	6.0%
High Income Economies	2.6%	5.6%	3.2%	4.2%
WORLD	2.9%	5.0%	3.6%	4.6%
East Asia and Pacific	0.6%	0.4%	3.8%	3.7%
Europe and Central Asia	3.9%	3.5%	4.4%	5.9%
Latin America and Carib.	6.7%	5.0%	6.1%	11.2%
Middle East and N. Africa	...	1.2%	3.0%	2.1%
South Asia	1.4%	2.5%	4.8%	5.1%
Sub-Saharan Africa	5.6%	5.4%	6.2%	5.3%

Source: World Development Indicators, The World Bank, 1999.

A look at the figures for exports of insurance and financial services[1] (Table 3) suggests that they have more than doubled for India from 1.2% to 2.6% during the period under review (1980-1997). But it is far behind the world level average figures, where a quantum jump has taken place during the same period. However within low income economies, Indian export performance has been tremendous, considering that share of this group of economies has declined from 2.9% to 2.3% during the period under

[1] The figure shown here pertain to combined figures for insurance and financial services; segregated figures were not available.

review. Specifically in the whole set of low and middle income economies, share of total service exports has significantly declined except that of South Asia of which India is a major part (others being Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka). Thus, India is a big emerging exporting economy for insurance and financial services.

Imports of insurance and fianancial services have grown for middle and high income economies, as for the world figures. In general, the leading service exporters should also be leading service importers because of obvious linkages of such services with other sectors like manufacturing. However, Indian imports for insurance and financial services have slightly declined in relative terms, not with the same pace as for low income economies. This decline is in contrast to increasing import share of such services in South Asia. Though not included here, the absolute figures for South Asia suggest, starting from a much smaller base with growth accelerating from 5 per cent a year in the 1980s to 11 per cent in the 1990s. Further reduction in barriers to service trade in the next round of World Trade Organisation negotiations could stimulate even faster growth early in the 21st century. With the entry of foreign brands in India, which ensures better product offer because of impending competition, the question of market potential becomes all the more important.

ROLE OF VITAL STATISTICS IN TRADE IN SERVICES

Life is full of uncertainties. Unforeseeable events/happenings can change it any moment. Uncertainty is a state of not knowing about unforeseeable events/happenings with any definiteness. The addition of definitive knowledge can help reduce the uncertainty and bring it closer to the arena of risk i.e. the calculation of possibility of meeting an unforeseeable event/happening. Thus, the moment one is in a position to calculate probability of an event, uncertainty is translated into some element of risk. Risk is a calculated amount of exposure to loss/danger of losing one's health, fortune, or life. Risk can be calculated (as premium rates for insurance) by finding life expectancies and rates of death (mortality tables). If the probability of occurrence of a risk can not be determined, there will be no probability tables for coverage of such risks, and consequently there will be no insurance of such risks. For example, there are no tables for determining the probability of losing a friend or probability of losing some money out of shopping activity, and hence no insurance cover is available for them. High mortality rates, low interest (for reinvestment of funds collected as premium) alongwith increased administrative costs over time, can make the insurance product unattractive.

Table 4 below clearly establishes that so far as life insurance is concerned, child mortality rate is continuously falling, couple protection rate is further progressing in their favour and the overall impact on expectation of life has increased and crossed 62 years mark. Truly, the cost of life insurance (with increased expectations of life and reduced mortality) must come down considerably. This has not happened with public sector in command. This advantage can be encashed by the new entrants in these areas.

Table 4 : Trends in Vital Statistics in India

		1951	1981	1991	Current Levels
Child Mortality Rate (0-4) years per thousand children		57.3 (1972)	39.1 1982)	26.5	23.9 (1996)
Couple Protection Rate %		10.4 (1971)	22.8	44.1	44 (31-3-99)
Expectations of Life at Birth (in years)	Male	37.2	54.1	60.6	62.36
	Female	36.2	54.7	61.7 (1991-1996) (Projected)	63.99 (1996-2000)

Source : Indian Economic Survey, March, 2000

Table 5 : World Trend in Vital Statistics

	1	1	2 (per 1,000 live births)	2 (per 1,000 live births)	3 (per 1,000)	3 (per 1,000)	4	4	4	4
							Male	Male	Female	Female
	1980	1997	1980	1997	1980	1997	1980	1997	1980	1997
India	54	63	115	71	177	88	261	212	279	202
Low Income Economies	52	59	116	82	182	118	327	274	312	255
Middle Income Economies	65	69	57	34	85	43	230	199	161	137
High income Economies	74	77	13	6	15	7	174	133	91	66
East Asia and Pacific	65	69	56	37	83	47	222	183	180	148
Europe and Central Asia	68	69	41	23	...	30	281	287	115	122
Latin America and Carib.	65	70	60	32	...	41	225	189	151	116
Middle East and N. Africa	59	67	95	49	137	63	248	190	207	164
South Asia	54	62	119	77	180	100	279	219	292	212
Sub-Saharan Africa	48	51	115	91	189	147	486	428	403	375
World	63	67	80	56	125	79	247	211	190	162

Note : 1 = Life Expectancy at Birth; 2 = Infant Mortality Rate; 3 = Under-five Mortality Rate; 4 = Adult Mortality Rate.

A close observation of the above data of world vital statistics show that the number of years a new born infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life, India stands better-off than the average of low income economies. In the low and middle income economy category, Indian position comparably transcends the Sub-Saharan Africa but having slight edge in South Asia. Age-specific mortality data such as infant mortality rates along with life expectancy at birth, are probably the best general indicators of a community's current health status. These are also cited as overall measures of a population's welfare or quality of life. For insurance sector the inference that can be drawn at national level is to identify India populations in need of such products, when life expectancy and mortality rates are below world average. The same data can be compared internationally to assess the socio-economic development levels.

Adult mortality rates are alarmingly high in Sub-Saharan Africa particularly because of AIDS-related mortality and is affecting both men and women. In Europe and Central Asia the causes are more diverse and affect men more-high prevalence of smoking, a high fat diet, excessive alcohol use, and stressful conditions related to the economic transition. Indian figures of vital statistics are above world average figures for male adult mortality, but has since been controlled and brought to the world average levels. But female adult mortality has not been made to fall in line with world level for reasons similar to Europe and Central Asia. However, the current (1997) figures for adult female morality are better than for males.

In all, a lot of competitive activity is anticipated in the conversion of passive customer need to an active customer want satisfaction. The time in India is ripe to witness insurance products being bought by the customers rather than sold by the agents. Overall, the insurance sector is likely to boom with entry of foreign participants. In this respect Indian and world vital statistics confirm the market need for insurance in India, more specifically life insurance, that is not developed at all.

FUTURE ROLE OF INSURANCE SECTOR : THE IMPENDING BANK ASSURANCE IN INDIA

With the deregulation in the insurance sector, and banking sector already opened-up, the financial sector faces new challenges to management. In the past merger and acquisition activity took place in Europe to combine the two sectors together on a complementary basis. The other new challenges before management include taking opportunities from broader market base when entry barriers are lower for banking institutions than for institutions in the insurance sector. Till now, the division of the sectors was perfectly in place. Now with the competition in the offing, this situation is expected to experience a definite turning point.

The low level of entry barriers would force the banking sector to invade into, up to now no man's land, insurance territories. Initially, the banking institutions would like to take a lead in such, possible consolidation, mergers and acquisitions. For example, in India the norms of RBI draft guidelines allow banks to act as insurance agents. The parameters include a minimum net worth of Rs. 500 crore, non-performing assets (NPAs) of 1 per cent less than the industry average and a capital adequacy of at least 10 per cent. These norms are met by HDFC and Corporation Bank. These banks consider insurance as a related area in their operations, particularly when the move is towards universal banking where risks are spread over different businesses. However, the norms do not allow domestic financial institutions and banks to float insurance subsidiaries. The only alternative is equity participation in insurance ventures which can not go beyond 49 per cent of the paid-up equity. Thus, joint ventures are a must in such collaboration of insurance and banking businesses. The Insurance Regulation and Development Authority Act, 1999 allows a maximum of 26 per cent stake to foreign investors, meaning that the rest must come from Indian counterpart(s). If banks are not allowed equity participation beyond 49 per cent, a third partner would be inevitable. It is anticipated that the banking norms/IRDA Act would be suitably eased to allow smooth creation of bank assurance.

The single biggest advantage that comes from bank assurance service would be the utilisation of bank branches/customers for expanding new insurance services. Thus, distribution centres would be immediately available for insurance products plus the existing bank customers could be approached, creating an expanded market. To begin with, the insurance could be offered by exploiting the costly network of banks. This can be followed by designing of such insurance products by banks themselves since additional costs of such new products would be significantly low. This means the existing employees of banks would need reorientation and retraining. In effect the customer savings would have choice of applying the same amount to saving/term deposit/insurance. Moreover, successful customer contact would be higher than the traditional distribution network.