

THE IMPACT OF INSURANCE COMPANIES IN THE DEVELOPMENT OF AN ECONOMY

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ABSTRACT:

Insurance is an important part in the financial sector that contributes significantly to the economy of a country. Today India is one of the fastest growing economies of the world. Insurance Industry is a growth-oriented industry. The life insurance sector in India has seen an array of changes in the past. The economic scenario which emerged after globalization, privatization and liberalization has thrown a new challenge before the insurers. The growth of insurance business of private sector companies has been higher than government sector. Insurance market contributes to the economic growth as a financial intermediary and also helps in managing risk more effectively.

Since the liberalization of the industry the insurance industry has never looked back and today stands as one of the most competitive and exploring industry in India. The entry of the private players and the increased use of the new distribution are in the limelight today. The use of new distribution techniques and the IT tools has increased the scope of the industry in the longer run.

After inception the Indian life insurance industry passed through many hurdles and hindrances in order to attain the present status. However, the income earning capacity, eagerness and awareness of the general public are the key determinants of the growth of any insurance industry.

According to S&P Global Market Intelligence data, India is the second-largest insurance technology market in Asia-Pacific, accounting for 35% of the US\$ 3.66 billion insurtech-focused venture investments made in the country. The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers.

KEY WORDS: Insurance, Globalization, Privatization, Liberalization, Economic Growth etc.

INTRODUCTION:

The Life Insurance Industry in India is one of the hard-core parts of the service sector. It plays a vital role in the economic development of our nation. It not only provides safety against life risk for individuals but also acts as savings, financial intermediary, and promoter of investment activities and stabilizer of financial markets. This in turn generates long- term invertible funds for nation building and enhances standard living of the people.

Developed financial systems which are effectively fulfilling the functions can increase efficiency in addition to economic growth. These functions are such as orientation of small deposit is owned by individuals to large investments. The investments are diversified to reduce the risk of depositors, reducing collecting and evaluating information costs about the projects which is applied by the specialized agencies.

The insurance industry of India has 57 insurance companies - 24 are in the life insurance business, while 34 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. There are six public sector insurers in the non-life insurance segment. In addition to these, there is a sole national re-insurer, namely General Insurance Corporation of India (GIC Re). Other stakeholders in the Indian Insurance market include agents (individual and corporate), brokers, surveyors and third-party administrators servicing health insurance claims.

In the Indian context, the insurance habits among the general public during the independence decade was rare but there was a remarkable improvement in the Indian insurance industry soon after the economic reform era (1991) due to healthy competition from many national as well as international private insurance players. In this paper attempt has been made to analyze the overall performance of Insurance Industry of India in post economic reform era.

Objectives of the Study

- To analyze the growth and progress of the Indian Life Insurance Company in post- liberalization period.
- To know the successful claim settlement of different insurance companies till date.
- To figure out the contributions of Insurance companies in growth and development.

List is arranged chronologically based on their recognition by IRDAI

	Company	Sector	Headquarters	Founded
1	<u>Life Insurance Corporation of India</u>	Govt.	Mumbai	1956
2	<u>HDFC Standard Life Insurance Co. Ltd.</u>	Private	Mumbai	2000
3	<u>Max Life Insurance Co. Ltd.</u>	Private	Delhi	2000
4	<u>ICICI Prudential Life Insurance Co. Ltd.</u>	Private	Mumbai	2000
5	<u>Kotak Mahindra Life Insurance Co. Ltd.</u>	Private	Mumbai	2001
6	<u>Aditya Birla Sun Life Insurance Co. Ltd.</u>	Private	Mumbai	2000
7	<u>TATA AIG Life Insurance Co. Ltd.</u>	Private	Mumbai	2001
8	<u>SBI Life Insurance Co. Ltd.</u>	Private	Mumbai	2001
9	<u>Exide Life Insurance Co. Ltd.</u>	Private	Bangalore	2001
10	<u>Bajaj Allianz Life Insurance Co. Ltd.</u>	Private	Pune	2001
11	<u>PNB MetLife India Insurance Co. Ltd.</u>	Private	Mumbai	2001
12	<u>Reliance Nippon Life Insurance Company</u>	Private	Mumbai	2001
13	<u>Aviva Life Insurance Company India Ltd.</u>	Private	Gurugram	2002
14	<u>Sahara India Life Insurance Co. Ltd.</u>	Private	Lucknow	2004
15	<u>Shriram Life Insurance Co. Ltd.</u>	Private	Hyderabad	2005
16	<u>Bharti AXA Life Insurance Co. Ltd.</u>	Private	Mumbai	2008
17	<u>Future Generali India Life Insurance Co. Ltd.</u>	Private	Mumbai	2007
18	<u>IDBI Federal Life Insurance Co. Ltd.</u>	Private	Mumbai	2008
19	<u>Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd.</u>	Private	Gurugram	2008
20	<u>Aegon Life Insurance Co. Ltd.</u>	Private	Mumbai	2008
21	<u>Pramerica Life Insurance Co. Ltd.</u>	Private	Mumbai	2008
22	<u>Star Union Dai-Ichi Life Insurance Co. Ltd.</u>	Private	Mumbai	2008
23	<u>India First Life Insurance Co. Ltd.</u>	Private	Mumbai	2009

List is arranged chronologically based on their recognition by IRDAI

	Company	Sector	Headquarters	Founded
24	Edelweiss Tokio Life Insurance Co. Ltd.	Private	Mumbai	2011

- As of October 2018, IRDAI has recognized 34 non-life insurance companies.¹
- As of January 2020, IRDAI has recognized one [reinsurance](#) company.

LIFE INSURANCE CORPORATION OF INDIA (LIC)

Life Insurance Corporation of India (LIC) was formed in September, 1956 by an Act of Parliament, viz., Life Insurance Corporation Act, 1956, with capital contribution from the Government of India. The then Finance Minister, Shri C.D. Deshmukh, while piloting the bill, outlined the objectives of LIC thus: to conduct the business with the utmost economy, in a spirit of trusteeship; to charge premium no higher than warranted by strict actuarial considerations; to invest the funds for obtaining maximum yield for the policy holders consistent with safety of the capital; to render prompt and efficient service to policy holders, thereby making insurance widely popular.

The first two decades of the twentieth century saw lot of growth in insurance business. From 44 companies with total business-in-force as Rs.22.44 crore, it rose to 176 companies with total business-in-force as Rs.298 crore in 1938. During the mushrooming of insurance companies many financially unsound concerns were also floated which failed miserably. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business. The demand for nationalization of life insurance industry was made repeatedly in the past but it gathered momentum in 1944 when a bill to amend the Life Insurance Act 1938 was introduced in the Legislative Assembly. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost.

The Corporation has registered a joint venture company in 26th December, 2000 in Kathmandu, Nepal by the name of Life Insurance Corporation (Nepal) Limited in collaboration with Vishal Group Limited, a local industrial Group. An off-shore company L.I.C. (Mauritius) Off-shore Limited has also been set up in 2001 to tap the African insurance market.

Today LIC functions with 2048 fully computerized branch offices, 113 divisional offices, 8 zonal offices, 1381 satellite offices and the Corporate office. LIC's Wide Area Network covers 113 divisional offices and

connects all the branches through a Metro Area Network. LIC has tied up with some Banks and Service providers to offer on-line premium collection facility in selected cities. LIC's ECS and ATM premium payment facility is an addition to customer convenience. Apart from on-line Kiosks and IVRS, Info Centres have been commissioned at Mumbai, Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, New Delhi, Pune and many other cities. With a vision of providing easy access to its policyholders, LIC has launched its SATELLITE SAMPARK offices. The satellite offices are smaller, leaner and closer to the customer. The digitalized records of the satellite offices will facilitate anywhere servicing and many other conveniences in the future.

GROWTH OF LIFE INSURANCE BUSINESS BEFORE AND AFTER LIBERALIZATION:

The insurance market was opened in August 2000 and the initial batch of new registrations was granted for the first time on 23rd October, 2000.. The number of policies and the amount of premium collected by the private insurers was very little. Table-1 shows the performance of only public sector life insurance company LIC of India before the liberalization i.e. during 1996 to 2000. The corresponding graphs regarding the number of policies and the amount of sum assured during this period have been shown in Figure 1 and 2.

TABLE-1

INSURANCE BUSINESS OF LIC OF INDIA BEFORE LIBERALIZATION

Year	No.of policies (in lakhs)	Annual growth rate in No of policies (%)	Sum assured (Rs.cr)	Annual growth rate in Sum assured (%)
1996	708.8	-	2,94,336	-
1997	776.7	9.58	3,43,018	16.54
1998	849.2	9.33	3,98,959	16.31
1999	916.4	7.91	4,57,435	14.66
2000	1,013.00	10.54	5,24,589	14.68

Source: Annual Reports LIC of India

TABLE-2

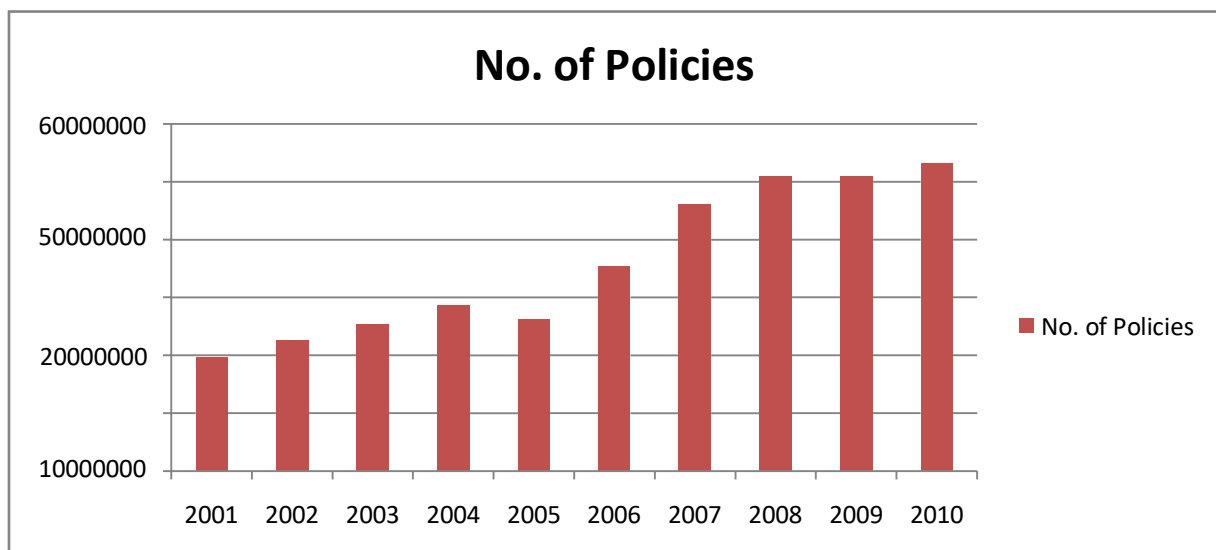
TREND OF LIFE INSURANCE BUSINESS IN INDIA IN THE POST REFORM ERA

Year	Total No. of Policies	Annual Growth Percentage	Amount of Premium collected in Rs Lakhs	Annual Growth Percentage
2001	19683000	---	1220,106.33	----
2002	22526838	14.45	5009445.94	310.7
2003	25370675	12.62	5574755.09	11.28
2004	28626916	12.83	6628792.81	18.91
2005	26211198	-8.44	8285479.80	24.99
2006	35462117	35.29	10587576.15	27.78
2007	46151566	30.14	15607586	47.41
2008	50874157	10.23	20135141	29.01
2009	50924000	0.10	22178548	10.15
2010	53225000	4.52	26545037	19.69
Total	359055467		121772468.1	

Source: Annual Reports LIC of India

FIGURE 2

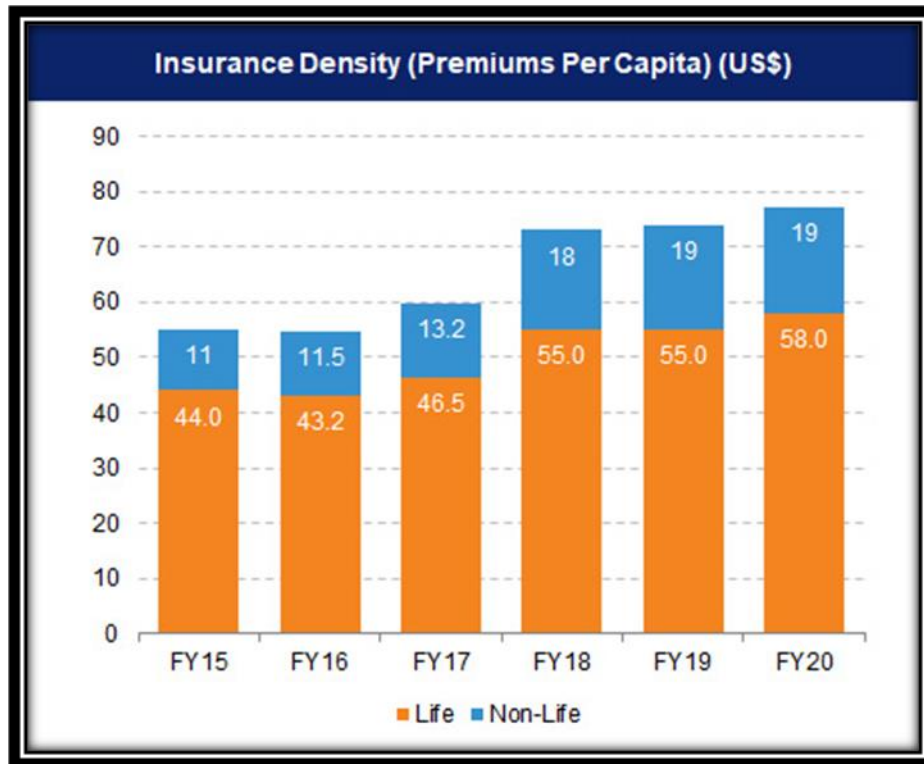
NUMBER OF POLICIES IN POST REFORMS ERA



Source: Annual Reports LIC of India

FIGURE-3

TOTAL PREMIUM COLLECTED IN POST REFORMS ERA



Source: Annual Reports LIC of India

CLAIM SETTLEMENT

“The claim settlement ratio of LIC was 98.62 per cent as at March 31, 2021 compared to 96.69 per cent as at March 31, 2020 and the proportion of claims repudiated/rejected has decreased to 1.0 per cent in 2020-21 from 1.09 per cent in the previous year.”

According to the Insurance Regulatory and Development Authority of India’s (IRDAI) annual report for 2020-21, “In case of individual life insurance business, during the year 2020-21, out of the total 11.01 lakh claims, the life insurers paid 10.84 lakh claims, with a total benefit amount of Rs 26,422 crore. The number of claims repudiated was 9,527 for an amount of Rs 865 crore and the number of claims rejected was 3,032 for an amount of Rs 60 crore. The claims pending at the end of the year was 3,055 for Rs 623 crore.”

INDIVIDUAL DEATH CLAIMS SETTLEMENT BY PERCENTAGE OF POLICIES:

INSURER	TOTAL CLAIMS SETTLED	TOTAL CLAIMS REPUDIATED
HDFC	98.01%	0.49%
Tata AIA	98.02%	1.94%
Bharti Axa	99.05%	0.95%
LIC	98.62%	0.69%
Pramerica Life	98.61%	1.24%
Exide Life	98.54%	0.22%
Kotak Mahindra	98.5%	1.14%
Reliance Nippon	98.49%	1.47%
Bajaj Allianz	98.48%	1.49%

Table III.1
Status of Claims due to COVID-19 Pandemic during FY 2020-21

(Amount in ₹ crore)

Claims Reported		Claims Settled		Claims Repudiated		Claims Outstanding	
Number of claims	Amount of claim	Number of claims	Amount of claim	Number of claims	Amount of claim	Number of claims	Amount of claim
21,836	1,617.45	21,304	1,418.71	175	81.18	357	117.56

Though these are the insurance companies with the highest percentage of claims settled, one needs to understand that the size of an insurance company also plays an important role in maintaining a higher claim settlement ratio. It becomes a challenge for big life insurance companies with a large policyholder base to remain in the top bracket in the claim settlement ratio table.

For a smaller insurer, it is easier to have tight control on the underwriting checks and balances at the time of issuing a new policy. These checks allow the insurance company to conduct a thorough investigation at the time of issuing a policy to avoid any policies which may have higher risks than the acceptable underwriting parameters.

CONTRIBUTION OF INSURANCE COMPANIES TO ECONOMIC GROWTH AND DEVELOPMENT:

Insurance has had a very positive impact on India's economic development. The sector is gradually increasing its contribution to the country's GDP. In addition, insurance is driving the infrastructure sector by increasing investments each year. Further, insurance has boosted the employment scenario in India by providing direct as well as indirect employment opportunities.

Due to the healthy performance of the Indian economy, the share of life insurance premiums in the gross domestic savings (GDS) of the households sector has increased. The increased contribution of the insurance industry from the household GDS has been ploughed back into the economy, generating higher growth.

1. Contribution of insurance to infrastructure:

Generally, countries with strong insurance industries have a robust infrastructure and strong capital formation. Insurance generates long-term capital, which is required to build infrastructure projects that have a long gestation period. Concurrently, insurance protects individuals and businesses from sudden unfavorable events. A well developed and evolved insurance sector is needed for economic development as it provides long term funds for infrastructure development and simultaneously strengthens the risk taking ability.

2. Contribution of insurance to FDI:

The importance of FDI in the development of a capital deficient country such as India cannot be undermined. This is where the high-growth sectors of an economy play an important role by attracting substantial foreign investments. Currently, the total FDI in the insurance sector, which was INR50.3 billion at the end of FY09, is estimated to increase to approximately INR51 billion in FY10. It is difficult to

estimate, but an equal amount of additional foreign investment, can roughly flow into the sector if the government increases the FDI limit from 26% to 49%.

The insurance sector, by virtue of attracting long-term funds, is best placed to channelize longterm funds toward the productive sectors of the economy. Therefore, the growth in their premium collections is expected to translate into higher investments in other key sectors of the economy. Therefore, the liberalization of FDI norms for insurance would not only benefit the sector, but several other critical sectors of the economy.

3. Contribution of insurance to employment:

Insurance helps create both direct and indirect employment in the economy. Alongside regular jobs in insurance, there is always demand for a range of associated professionals such as brokers, insurance advisors, agents, underwriters, claims managers and actuaries. The increasing insurance business has increased the demand for highly skilled professionals as well as semiskilled and unskilled people.

4. Insurance Contributes Positively to Economic Growth:

The deepening of insurance markets makes a positive contribution to economic growth. While life insurance is causally linked to growth only in higher income economies, nonlife insurance makes a positive contribution in both developing and higher income economies. Some research suggests that the positive contribution of life insurance to growth is primarily through the channel of financial intermediation and long term investments. However, it is important to note that these studies do not address the important contributions to individual and social welfare from risk management.

5. Strong Complementarities between Insurance and Banking:

Insurance and banking system deepening appear to play complementary roles in the growth process. Although insurance and banking separately each make positive contributions to growth, their individual contributions are greater when both are present. There is also some evidence that the development of insurance markets contributes to the health of securities markets.

GROWTH OF NEW POLICIES:

The IRDA in insurance industry in India has taken impressive measures in recent years and has recorded phenomenal growth complemented by country's improving economic growth. The Indian insurance is gaining in size and is in par with the Asian markets. The business of insurance is related to the protection of the economic values of assets of the policy holders. The number of new policies issued by the life insurer in accordance with IRDA is an index of growth of life insurer. The IRDA is looking at making insurance policies more investor-friendly by introducing tax exemption on insurance policies. Whole IRDA is still considering a proposal by LIC to link tax relief to the term of the life insurance policy, reports suggest IRDA has backed a move to introduce separate tax exemption limit on life insurance policies.

CONCLUSION:

The growth of the Indian economy has been diminishing due to various reasons, but the Indian growth story is still alive as Indians have a habit of moving slowly but steadily and in the end we win the race. Currently the situations are not in our favour but as soon the above problems settle down, we may be back on track. At the same time many sectors are supporting to the growth of the Indian economy, among that insurance sector's contribution is very high. The growth performance of the insurance industry has increased tremendously since the establishment of IRDA in India, which supervise and controlled the entire insurance industry. The increase in number of insurer both in life and non-life, growth in insurance penetration and density, increase in number of policies issued and increase in the speed of claims settlement and the in many more aspects the IRDA is playing a prominent role in the Indian insurance sector.

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