

# A Study Of Indian Insurance Sector Challenges And Opportunities

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## ARTICLE INFO

## ABSTRACT

Insurance sector in India is one of the growing sectors of the economy. India's growing consumer class, rising insurance awareness, increasing domestic savings and investments are among the most critical factors that have positively driven the market penetration of the insurance product among its consumer segments. Both the life and non-life insurance in India, which were nationalized in the 1950s and 1960s respectively, which were liberalized in 1990s. Since the formation of IRDA and the opening of the insurance sector to private players in 2000, the Indian insurance sector has witnessed rapid growth. India is among the most promising emerging insurance markets in the world. Notwithstanding the rapid growth of the sector over the last decade, insurance in India remains at an early stage of development. The dynamic growth of insurance buying is partly affected by the changing income of insurance demand. Insurance is a shield which protects the financial interests of people. This study has made an attempt to analyze the challenges and future prospects in insurance sector. The players needs to create awareness in the new rural market and take the pain to understand the needs and demands of the Indian customers. Customer's satisfaction should be given priority. They should work along with the government in order to grow.

**Keywords:** Insurance sector, Challenges, Financial Sector, customer satisfaction, Opportunities.

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## INTRODUCTION

The financial service industry has made significant changes after liberalization and globalization. Among all, insurance sector is also one of the important sectors in India. The past decade has seen considerable growth in the insurance sector and has seen the introduction of a large number of innovative products a natural and positive outcome of increasing competition. The insurance sector plays a very crucial role in the economy of any country it increases avenues for savings of individuals, protects the future of individuals and spreads risks of institutions by forming a large pool of fund.

The sector also contributes significantly to the capital markets and assists in large capital infrastructure developments of our country through their funds. The insurance sector in India is one of the booming sectors of the economy and is growing every year. The insurance industry is witnessing a growth rate of around 15-20% yearly .The potential of the Indian insurance industry is huge. And the future of the Indian insurance sector looks bright. As the government of India liberalized the insurance sector in March 2000, lifting all entry restrictions for private players. Insurance companies in India are growing vertically and horizontally bringing growth and new employment opportunities. It is an intensively people-oriented business and human resources will be the undoubted differentiator. India's life insurance sector is the biggest in the world. The economic reforms initiated in the early 90s paved the way for the growth and opening up of the financial sector, which led to a sustained period of economic growth. The insurance industry was opened up for private players in 2000, and has seen wonderful growth over the past decade with the entry of global insurance majors. India is fast emerging as one of the world's most dynamic insurance markets with significant untapped potential. The insurance sector plays a critical role in a country's economic development. It acts as a mobilize of savings, a financial intermediary, a promoter of investment activities, a stabilizer of financial markets and a risk manager. The life insurance sector plays an important role in providing risk cover, investment and tax planning for individuals; the non-life insurance industry provides a risk cover for assets.

Health insurance and pension systems are fundamental to protecting individuals against the hazards of life, and India, as the second-most crowded nation in the world, offers significant potential for that type of cover. Furthermore, fire and liability insurance are essential for corporations to safeguard infrastructure projects and investment risks. Private insurance systems complement social security systems and add value by matching risk with price.

### **CONCEPT AND MEANING OF INSURANCE**

Life is a roller coaster ride and is full of twists and turns. Insurance policies are safeguard against the uncertainties of life. Insurance is an economic institution that allows the transfer of financial risk from an individual to a pooled group of risks by means of two-part contract. As in all insurance, the insured transfers a risk to the insurer, receiving a policy amount of coverage against an uncertain event. Insurance is a means of protection from financial loss. It gives peace of mind. Insurance provides people and businesses with financial protection, so that when something bad happens they can maintain a certain standard of living and public finances need not to be burdened. It, therefore makes sense for policymakers to enable as many people and businesses as possible to take out suitable insurance cover. Insurance is a technique where in a number of people, who are exposed to similar risk, participate in the scheme and contribute in the shape of periodic premiums. Such premiums are received by the insurer who is able to pay out of the premiums received by him, for the losses of some of those who have participated in the scheme. Thus it is wonderful technique of spreading and transfer of risks. Insurance is the efficient use of an insured's resources. Insurance makes it unnecessary to set aside a large amount of money to pay for the financial consequences of the risk exposures that can be insured. This allows that money to be used more efficiently. Insurance meets statutory and contractual requirements as well as provides evidence of financial resources. Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Risk is uncertainty of a financial loss. Insurance is also defined as a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person injured against the risk. Insurance provides financial protection against a loss arising out of happening of an uncertain event. A person can avail this protection by paying premium to an insurance company. A pools created through contributions made by persons seeking to protect themselves from common risk. Any loss to the insured in case of happening of an uncertain event is paid out of this pool. Insurance helps reduce the burden of uncompensated accident victims and the uncertainty of society. The insurance is primarily a social device adopted by civilized society for mitigating the incidence of loss of income to families by unforeseen contingencies.

### **INDIAN INSURANCE SECTOR:**

Insurance industry in India is governed by Insurance Act 1938, Life Insurance Corporation Act 1956, General Insurance Business (Nationalization) Act 1972, and Insurance Regulatory and Development Authority (IRDA) Act 1999. Insurance in India used to be tightly regulated and monopolized by state run insurers. Following the move towards economic reforms in the early 1990s, various plans to revamp the sector finally resulted in the passage of the insurance business was opened on two fronts. Firstly, domestic private-sector companies were permitted to enter both life and non-life insurance business. Secondly, foreign companies were allowed to participate, albeit with a cap on shareholding at 26%. With the introduction of IRDA Act, the insurance sector joined a set of other economic sector on the growth march. Following the passage of the Insurance Regulatory and Development Authority (IRDA) Act 1999, India abandoned public sector exclusively in the insurance sector in favors of market driven competition. This shift has brought about major changes to the insurance industry. In India, the Ministry of Finance is responsible for enacting and implementing legislations for the insurance sector with the Insurance Regulatory and Development Authority (IRDA) entitle with the regulatory and development role. Since the formation of IRDA and the opening up of the insurance sector to private players in 2000, the Indian insurance sector has witnessed rapid growth. A growing middleclass segment, rising income, increasing insurance awareness, rising investment and infrastructure spending, have laid a strong foundation to extend insurance services in India.

### **TYPES OF INSURANCE**

On the basis of the risk they cover, insurance policies can be classified into two major categories:

1. Life insurance
2. Non-Life Insurance

#### **1. Life Insurance**

Life Insurance is defined as a contract between an insurance policy holder and an insurance company, where the insurer promises to pay a sum of money in exchange for a premium, upon the death of an insured person or after a set period. Life Insurance policies also comes with the guaranteed sum assured amount which is payable on happening of the event. Life Insurance provides a risk coverage to the insured family in form of monetary compensation in lieu of premium paid, it acts as a support for the family. Providing a safeguard to

the family of the policy holder is the most important work of the life insurance policy.

## 2. Non Life insurance

Non-life insurance products cover risks against natural calamities, burglary. Non Life insurance helps to protect the policyholders the things which they value, such as homes, cars and other valuables, from the financial impact of risks, big and small – from fire, flood, storm and earthquake, to theft, car accidents, travel mishaps and even from the costs of legal action against us. And one can choose the types of risks we wish to cover by choosing the right kind of policy with the features it needs. Insurance is system by which the losses suffered by a few are spread over many, exposed to similar risks. With the help of Insurance, large numbers of people exposed to a similar risk make contributions to a common fund out of which the losses suffered by the unfortunate few, due to accidental events, are made good. Insurance is a protection against financial loss arising on the happening of an unexpected event. Insurance policy helps in not only mitigating risks but also provides a financial cushion against adverse financial burdens suffered.

### OBJECTIVES OF THE STUDY

1. To know the challenges faced by the Insurance sector in India .
2. To know about the opportunities of insurance sector.

### RESEARCH METHODOLOGY

**Collection of data:** The main sources collected from published annual reports, manuals, books , journals, articles, business magazines and other research papers.

### INSURANCE INDUSTRY PENETRATION AND DENSITY IN INDIA

An attempt, therefore, has been made to study the growth of new business in terms of policies and premium income of Indian life insurance sector. The insurance sector of India consists of 58 insurance companies of which 22 are in life insurance business and 32 are non-life insurers. The measure of insurance dispersion and density reflects the level of development of insurance sector in a country. While insurance dispersion is measured as the percentage of insurance premium GDP, insurance density is (per capita premium). The level of insurance density reached up to USD 63.4 in the year 2010 from the level of USD 12.5 in 2001. However, there was a slight decline further, but regained its position gradually and has become USD 73 in the year 2018, (USD 72 in 2017).The insurance density of life insurance sector had gone up from USD9.1 in 2001 to reach the peak at USD 55.7 in 2010. Since then it has exhibited a declining trend up to the year 2013. During the year 2018, the level of life insurance density was USD 55 (USD 55 in 2017). The life insurance dispersion had gone up from 2.15 percent in 2001 to 4.60 percent in 2009. Since then, it has exhibited a declining trend up to the year 2014 There was a slight increase in 2015 reaching 2.72percent, remained same in 2016,increased to 2.76 in the year 2017 and decreased to 2.74 in the year 2018.The dispersion of non-life insurance sector in the country has gone up from 0.56 in 2001 to 0.97 in 2018 (0.93 in 2017). Its density has gone up from USD2.4 in 2001 to USD 19 in 2018 (USD 18 in 2017) Insurance dispersion in India Insurance Density in India Source : IRDA Annual Report (2019-20)

### OPPORTUNITIES

- i) Aggressive marketing strategies by private sector insurers will buoy consumer awareness of risk and expand the markets for products
- ii) Competition in the insurance sector will allow market forces to set premiums that are appropriate for exposures and push insurers to differentiate their products and services.
- iii) There is a probability of a burst in employment opportunities.
- iv) The falling interest rates, the scope for entering related areas like banking and pensions in a bit for synergy and the promise of e-commerce are some of the opportunities knocking at the door of the insurance sector.
- v) Given the huge potential the Indian insurance market, it is expected that there will be enough business for the industry entrants.

### CHALLENGES:

- i) Premium rates will remain under pressure due to intense competition on the more profitable lines.
- ii) Public and private sector insurer's greater reliance on their investment portfolios to generate sufficient income and gains for net profits would subject them to the volatility of the financial markets.
- iii) As far as the prospective are concerned, the greatest challenge is that of setting up infrastructure and to reach out to as many areas as possible.
- iv) The biggest challenge for public sector giant, the Life Insurance Corporation is one of the sustaining the huge growths it has shown in the recent times.

- v) Despite the liberalization in the insurance sector, public sector insurance companies are expected to maintain their dominant positions, at least in the predictable future.

### CONCLUSION:

The future of India's insurance sector looks bright. The country has a favorable demographic, growing awareness, investment friendly government which is constantly working towards framing policies that give businesses the best possible environment to grow. The ongoing COVID-19 pandemic drastically shifted consumer needs, habits and expectations, while compelling the customers to buy insurance products. The economic scenario which is going on has thrown a new challenge before the insurance sector. Now it has to be more competitive in order to meet the needs and demands of its customers. It should be planned accordingly, suiting the Indian society, because it is a diversified one from high income group of the low one. Industry should concentrate on agents' training to make them updated as per market requirements & professionalism to tackle the queries of customers & doubts raised in their mind by other competitors. In most of the countries, Insurance industries have not been allowed to operate in a free and competitive environment and are saddled with avoidable restrictions. The market forces should be allowed to operate and determine as to which are the best products and optimum price in the interest of the consumers. Similarly most of the decisions relating to investment of funds, marketing of products, placement of reinsurance business should be left to marketing forces. The objective behind regulations is to ensure financial strength of the companies so that the interest of the policy holders are protected, the objective could efficiently be achieved by incorporating self-discipline and code of conduct, strict compliance to maintain solvency margin will itself ensure healthy financial strength.

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