Sitting pretty – Indian insurance awaits liberalisation

With a population of one billion, the soon-to-be-privatised industry is one of the most promising markets in the world, say Robert Gilbert and Laurence Sherlock of Standard Chartered.

Insurers are in the business of insuring lives and assessing risks and India has plenty of both – a billion-plus lives and a considerable number of risks such as accidents, thefts, fires, civil disturbances, terrorist activities, airline hijacking and even bomb threats.

Add to this backdrop the imminent liberalisation of the Indian insurance market and it is little wonder that almost all of the world's leading insurers in both life and the non-life sectors are queuing up on the doorstep to tap into what they regard as one of the most promising markets in the world. The Indian insurance market is thus poised for explosive growth.

To illustrate the point – out of a total population of one billion, the insurable population of 280m is almost equal to the entire population of the US. What is more, only 20% of the potential insurable population are currently insured. The potential income from the insurable population from premiums alone (on a per annum basis) is close to $50bn. A mere 10% of the working population has old-age income security in the form of pensions. It is estimated that the Indian insurance industry will generate an annual premium value of INR 1.850bn ($40bn) by 2010, with life insurance accounting for $30bn.

The per capita insurance premium in India is a mere $6 (compared to $1,338 in South Korea), one of the lowest in the world, while insurance premiums account for a mere 2% of GDP (compared to the world average of 7.8%).

Generally, there is a positive correlation between the economic development of a country and premium income. With the economy of India progressing well, it is natural to expect the same from the insurance sector – hence the excitement.

Background

Hitherto the insurance industry has been the domain of the nationalised players like the Life Insurance Corporation of India (LIC) and the General Insurance Company of India (GIC) and its four (non-life) subsidiaries.

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Prior to nationalisation of the life insurance industry in 1956 and the general insurance industry in 1972, India used to have a fairly broad-based insurance industry with a large number of domestic and multinational underwriters represented.

Life sector

Insurance in India has its origin in the early 19th century and is closely associated with the arrival of the British and the business and socio-economic transformation that followed.

Life insurance came into existence formally in India with the establishment of a British firm, the Oriental Life Insurance Company in Calcutta in 1818, followed by the Bombay Life Assurance Company in 1823, the Madras Equitable Life Insurance Society in 1829 and the Oriental Government

Vital statistics on life insurance in India (1998-1999)

Total population	925m
Urban population	257m
Rural population	668m
Life Insurance Corp policy holders	73.7m
No of LIC agents	520,000
No of branches	2024
Premium income (1997-1998)	$4.8bn
Five-year compound annual growth rate (1993-1998)	12 %
Estimate of insurable population (1997-1998)	240m
Estimated insurable population in 2000	320m

Source: The National Council for Applied Economic Research (NCAER), an autonomous, government-funded research institution.

Key facts

- Penetration of life insurance has doubled from 0.70% in the 1980s to approximately 1.3% in the 1990s.
- Current population insured for life is less than 25% of the insurable population.
- 92% of premium income comes from tax savings-related insurance schemes.
- Nearly 66% of the insurable population lives in rural areas.

Security Life Assurance Company in 1874.

The Indian Life Assurances Companies Act 1912, was the first statutory measure to regulate the life insurance business. A steady trend in the establishment of new life insurance units in the country followed over the next several decades and by 1956, 154 Indian Insurers, 16 foreign insurers and 75 provident societies aggregating to a total of 245 operators constituted the life insurance business in India.

However, on 1 September 1956 the life insurance industry was nationalised. The Life Insurance Corporation was formed by an act of parliament, *viz*, the LIC Act 1956 which gave the LIC a monopoly for transacting life assurance in India.

General sector

In 1957, the General Insurance Council, a wing of the Insurance Association of India, framed a code of conduct for ensuring fair conduct and sound business practices in the general industry.

In 1972, the general insurance industry was nationalised and the General Insurance Company of India (GIC) and its four subsidiaries have had a monopoly in the non-life insurance business. The non-life insurance business is split more or less equally between the Oriental Insurance Company, the New India Assurance Company, the United India Insurance Company and National Insurance.

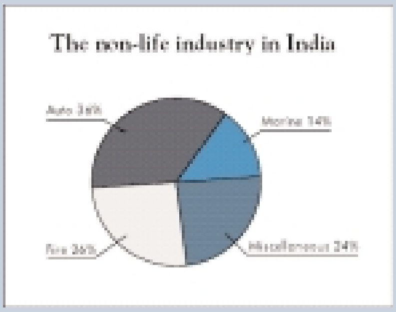
Each of the four general insurance providers are based in the respective major cities or metros: United India Insurance in Chennai, New India Assurance in Mumbai, Oriental Insurance in New Delhi and National Insurance in Calcutta. The General Insurance Company is in the re-insurance business only.

Currently, the range of policies offered by each of the market players is more or less identical and it is so because of the regulated legacy of the industry. While they have an extensive branch network of 3,000 and gross written premiums of $2bn, overall premium per capita is quite low when compared to, say, Hong Kong or Japan.

The potential market

A look at the numbers reveals all. An estimate has been made by experts to assess the existing insurance market in India in terms of premium income. Out of an insurable population of 300m, 50m have the capacity to pay a premium of INR 13,500 ($300) per year, 100m have the capacity to pay INR 9,000 ($200) per year and 150m have the capacity to pay INR 4,500 ($100) per year.

FIGURE 1



On this basis, the total annual insurance premium would be more than $50bn. The official national income (GDP) naturally excludes finance available in the parallel economy.

India has an amorphous middle class of about 300m-plus people, who can afford to buy life, health, disability and pension plan products. Out of this number, only 20% have insurance covering only 25% of their needs and financial capacity. The remaining 80% have no insurance cover, leaving this market practically untapped.

Regulatory environment

Starting in 1993 a series of reports and annual 'white papers' were produced advocating changes in the industry. However, the right combination of political will and support never materialised to effect a change until 1999. Finally, in December 1999, an act of parliament was passed amending the privileges enjoyed by the LIC and GIC and establishing the Insurance Regulat and Development Authority (IRDA).

IRDA has been established to pro the interest of insurance policy hold and to regulate, promote and ensure orderly growth of the insurance indust

Salient features of the IRDA bill are

- total foreign equity participation be limited to 26% with a minim capital of INR 1bn ($24m);
- no single company can transact b life and general insurance (althoug is not clear if the same foreign Indian shareholders may own one each);
- capital requirement for re-insurar ventures has been fixed at INR 2 ($48m);
- dilution of equity held by Indian p moters to 26% within 10 years fr commencement (with both Ind and foreign promoters holding more than 26% each);
- 48% to be offered to the public large within a 10-year time frame
- all sectors, ie life, property, casu health, accident & pensions will opened up simultaneously;
- every insurer to undertake a perce age of the business in the rural s tor; and
- prohibition for the investment funds outside India.

Who will come?

It is anticipated that a broad cross s tion of major multi-national insurar companies will apply for licenses alo with their Indian JV partners. These include life and non-life firms.

How many licenses will be issu and what is the timetable ?

IRDA has made it plain that this will be a long drawn-out process where t

Vital statistics of non-life insurance in India

Total premium income (1997-998)	$1.9bn
Total premium income (1996-1997)	$1.75bn
Five-year compound annual growth rate	16-17%
Estimated impact of 2 % decline in economic growth	8%

Key facts

- Most non-life insurance is bought because of government regulations th mandates their coverage.
- The law requires all automobiles to have third party insurance.
- Bulk of the policies are purchased by the corporate sector (95% of non-au insurance).

Proposed joint ventures in insurance

Indian partner	Foreign partner	Country of origin
TATA	AIG	US
K.K. Birla	CGNU	UK
Cholamandalam	AXA	France
Sundaram Finance	Royal & SunAlliance	UK
Wadia	CGNU	UK
Kotak Mahindra	Chubb	US
Sundaram Finance	Winterthur	Switzerland
Alpic Finance	Allianz	Germany
Vysya Bank	ING Group	Netherlands
Sanmer Group	GIO	Australia
ICICI Ltd	Prudential (UK)	UK
Dabur	Allstate	US
IIDFC	Standard Life	UK
Adiya Birls	Sun Life of Canada	Canada
Max India	New York Life	US
20th Century Finance	Canada Life	Canada
MA Chidambaram Group	MetLife	US
Ranbxy Life	CIGNA	US

dole out licenses over a number of years in dribs and drabs. While IRDA will not commit to a specific number of licenses, it generally felt that they are prepared to look at any of the large qualified insurance companies with an open mind. Most people close to the situation believe that there will be at least six or seven licenses awarded in both the life and non-life sectors.

The timetable is expected to be:

- application submission – August/September/October 2000;
- licenses awarded – January 2001; and
- first policies written – March 2001.

What is the anticipated impact of the new entrants ?

One school of thought is that the new entrants will swamp the market and take significant market share from LIC and GIC because they have superior products, a customer service culture and enhanced technology.

However, India is a very large market and the new entrants are going to have real constraints in terms of geographic reach and distribution channels.

For the risk manager at a multinational or large Indian company, they will provide new products and advanced coverage, and given the expected number of newcomers, at very good value relative to the premiums paid.

For the man on the street, they will introduce competition into the general insurance market for lines such as autos, improve service standards, and introduce a variety of investment-oriented life products. The latter should do well with the middle-class professionals in the major cities.

Most people anticipate that the non-life domestic industry will be hardest hit, given that there are four of them and they already compete to some degree.

The LIC will, of course, also see business go to the new entrants, but many believe they will be able to sustain their business given the large amount of business they write in rural, semi-rural and smaller tier cities throughout this vast country. ■

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