'Measuring Impact of Insurance, including Jan Suraksha, Schemes on Insurance Consumption in India'

{This Report submitted to the Indian Institute of Banking & Finance (IIBF), Mumbai for the Award of Diamond Jubilee & CH Bhabha Banking Overseas Research Fellowship (DJCHBBORF) 2016-17}

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Mumbai, May 2018

Certificate

This is to certify that this Research Report entitled **"Measuring Impact of Insurance, including Jan Suraksha, Schemes on Insurance Consumption in India"** has been carried out by Dr. Tapas Kumar Parida, and submitted to the Indian Institute of Banking and Finance (IIBF), Mumbai for the award of the Diamond Jubilee & CH Bhabha Banking Overseas Research Fellowship (DJCHBBORF) for 2016-17, under my supervision. The research work done in this Report is Satisfactory and recommended for the Award.

This Report or a part thereof has not been previously submitted to any other Institute/ University for any award/degree.

Place: Mumbai
Date: 10th May 2018

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DECLARATION

I, hereby declare that this project report entitled***, 'Measuring the Impact of Insurance, including Jan Suraksha Schemes, on Insurance Consumption in India'*** is a bonafide and genuine research work carried out by me. The report has been submitted to the Indian Institute of Banking & Finance (IIBF), Mumbai for the Award of Diamond Jubilee & CH Bhabha Banking Overseas Research Fellowship (DJCHBBORF) for 2016-17. There is no violation of copyright. Indian Institute of Banking & Finance (IIBF) shall have the rights to preserve, use and disseminate this report in print or electronic format for academic/research purpose.

Place: Mumbai
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(Tapas Kumar Parida)

Dedicated to My Parents

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(Tapas Kumar Parida)

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AIC: Agriculture Insurance Company of India Ltd

AKBY: Anganwadi Karyakartri Bima Yojana

APY: Atal Pension Yojana

BMs: Branch Managers

CCE: Crop Cutting Experiment

CCIS: Comprehensive Crop Insurance Scheme

CSO: Central Statistical Organisation

DBT: Direct Benefits Transfer

DBTL: Direct Benefit Transfer of LPG

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

GDS: Gross Domestic Savings

GIC: General Insurance Corporation

HH: Households

IRDAI: Insurance Regulatory Development Authority of India

LIC: Life Insurance Corporation

LICI: Life Insurance Corporation of India

LOB: Lines of Business

LPG: Liquefied Petroleum Gas

MFIs: Micro Finance Institutions

MGNREGA: Mahatma Gandhi National Rural Employment Gurantee Act

MLI: Modified Lilien index

MNIAS: Modified NIAS

NABARD: National Bank for Agriculture and Rural Development

NAIS: National Agricultural Insurance Scheme

NAV: Norm of Absolute Values

NCAER: National Council of Applied Economic Research

NIMs: Net Interest Margins

NPA: Non-Performing Assets

NPCI: National Payments Corporation of India

NPS: National Pension System

OD: Overdraft

PDS: Public Distribution System

PFRDA: Pension Fund Regulatory and Development Authority

PLI: Postal Life Insurance

PMFBY: Pradhan Mantri Fasal Bima Yojana

PMJDY: Pradhan Mantri Jan Dhan Yojana

PMJJBY: Pradhan Mantri Jeevan Jyoti Bima Yojana

PMSBY: Pradhan Mantri Suraksha Bima Yojana

PSBs: Public Sector Banks

PSGICs: Public Sector General Insurance Companies

RBI: Reserve Bank of India

ROE: Return on Equity

RPLI: Rural Postal Life Insurance

RRBs: Regional Rural Banks

SC: Structural Change

SHGs: Self Help Groups

SIDBI: Small Industries Development Bank of India

SMCS: Swayamshree Micro credit Services

TAC: Tariff Advisory Committee

ULIPs: Unit-Linked Insurance Plans

Chapter I
Motivation, Objectives & Scope of the Study

1.1 Introduction

The Insurance Industry has a long presence in India but the sector has opened up for private and foreign participation in August 2000, i.e. after the formation of the Insurance Regulatory Development Authority of India (IRDAI), with a cap for foreign investment fixed at 26%. With the private and foreign player's participation, the industry structure has moved towards a more competitive market from a pure monopoly. As of end March 2017, there are 62 insurers who are doing business in India (24 are life insurers, 23 are general insurers, 6 are health insurers exclusively doing health insurance business and 9 are re-insurers including foreign reinsurers branches and Lloyd's India), compared to only 6 insurers (including LIC, 4 public sector general insurers and GIC as the national reinsurer) in the year 2000.

In the post-reform period (2000-01 to 2016-17), the Indian insurance sector has recorded an impressive CAGR growth of around 17%, with life insurance business is growing at a CAGR of 16.7% in total premium while non-life segment grew by 16.9%. There has also been a significant expansion in the customer base, product innovations and operational innovations due to increased competition among the players. However, the insurers still grapple with a number of issues, like raising capital, pricing of products, customer service, and profitability. Further, regulatory changes, the introduction of the new tax system and modification in the life table, etc. have added more burden to the insurance companies.

Though the sector has developed in many aspects of insurance, as compared to the developed countries like US, UK, and France, the Indian insurance sector still lags in terms of Insurance Penetration (ratio of premium volume to GDP) and Insurance Density (ratio of gross premium volume to the total population in a country). The insurance penetration and insurance density in India was only 3.49% and $59.7 respectively in 2016-17, compared to the World average of 6.28% and $638.3 respectively. So, to increase insurance penetration in the country, Government has taken a number of measures in the last 3-years. Some of these are: (i) Pradhan Mantri Suraksha Bima Yojana (PMSBY) covering accidental death risk of Rs 2 lakh at a premium of Rs 12 per year; (ii) Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) covering both natural and accidental death risk of Rs 2 lakh with a premium of Rs 330 per year for the age group of 18-50 Years. (iii) raised the health insurance deduction limit under section 80D to Rs 25,000 from Rs 15,000; (iv) proposal to launch a flagship National Health Protection

Scheme to cover more than 10 crore poor and vulnerable families (50 crore individuals approx.) with family coverage up to Rs 5 lakh per year for secondary and tertiary care hospitalization; v) allowed insurance companies to be listed on the stock exchanges to meet their fund requirements; and (vi) FDI limit hiked up to 49% with Indian management control, which may help the insurers to infuse more capital for furthering business in the sector. In 2016-17, more than Rs 2,100 crore of foreign capital has infused into the sector, mostly into the general insurance and reinsurance business. However, the analysts have estimated that after the passage of the bill, it would take around 2-years for capital infusion of Rs 20,000 crore and 5/6 years to attract capital inflows of about Rs 40,000 crore to Rs 60,000 crore. If these projected levels of capital inflows materialize, the industry is likely to expand at a CAGR of about 15% over the next 10 years (Parida; 2015).

1.2 Research Gap & Motivation of the Study

It has been more than a decade since the sector was liberalized in 2000. Though the sector merits a thorough review but no one has studied except Sahu (2011) and Parida & Acharya (2017). However, both the studies have studied different aspects of Indian life insurance industry. Further, Parida (2017) has calculated the level of competition in the Indian non-life insurance industry in the post-reform period. As per our knowledge, not a single study has been conducted to see the impact of the policy initiatives on the insurance consumption in India. In light of the above, the present study tried to measure the impact of the recent policy initiatives on insurance consumption and also expected to find out the reasons for low insurance penetration in the country.

1.3 Objectives of the Study

The main objectives of the study are:

a) To review the progress & performance of the Indian Insurance sector.

b) To discuss the recent policy initiatives, say Jan Dhan to Jan Suraksha schemes, and its impact on the insurance consumption in India.

c) To examine the impact of insurance sector policy initiatives on the banking sector due to the sale of insurance policies (including Jan Suraksha Schemes) through bank branches.

d) To find out the factors that affect the insurance consumption and also to assess the reasons for the low insurance penetration in India.

1.4 Data and Methodology

- **Data Sources:** The study is based on both primary and secondary data, sourced from different reports, documents and databases. The primary data has been collected from 300 respondents which include 100 bankers (as sales agents) and 200 customers (insurance buyers) to better understand the issues & problems for the banks and as well as for the customers. While the secondary data has been collected from various sources at the national (IRDAI, RBI, Various committee reports, Ministry of Finance) and international level (Swiss Re).
- **Methodology:** The study is conducted in the following manners, with objective specific. The objective 1, discussed with a discourse analysis of Government policy documents to understand how the policy initiatives have moved towards the development of insurance industry in the country. To address the objective 2, recent policy initiatives, say Jan Dhan to Jan Suraksha schemes, and its impact on the insurance consumption, we have discussed each policy in a detail. The 3rd objective of the study is discussed with a primary survey of the front line bank branch officers who deal with the sale of insurance products, to know the impact of insurance business on the banks. Further in Objective 4, to find out the factors that affect the insurance consumption, a primary survey of the insurance buyers is conducted through a structured questionnaire. Also, to understand the factors behind the uptake of micro-insurance in Cuttack and Bhubaneswar cities of Odisha State, a primary survey conducted.

1.5 Organization of the Report

The rest of the report is organised into six Chapters. Chapter II presents the origin, progress, and performance of Indian insurance sectors in different phases of evolution in each business segments. Chapter III reviews and discusses the recent policy initiatives taken by Government and other regulators to increase the insurance inclusion in the country. Chapter IV discusses the survey results to find out the awareness among the people towards insurance and impact of insurance business on banks. This also aims to find out the reasons for the lower insurance consumption in India. In Chapter V, an attempt has been made to understand the factors behind the uptake of micro-insurance in Cuttack and Bhubaneswar cities of Odisha. Finally, Chapter VI summarizes the major findings and offers some concluding remarks.

*****

Chapter II
Origin, Progress & Performance of the Indian Insurance Sector

2.1 Introduction

Insurance has a deep-rooted history in India, finding mention in writings of Manu (Manusmriti), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings speak of pooling of resources that could be redistributed in times of calamities such as floods, fire, epidemics, and famine etc. This was possibly a precursor to modern-day insurance. In ancient Indian history, the earliest traces of insurance have been preserved in the form of marine trade loans and through carrier's contracts. The Sanskrit term *'Yogakshema'* is found in the Rig Veda to denote the concept of the general welfare of subjects. While, from the perspective of insurance, more relevant mention of the word is probably found in the *'Bhagavad Gita'* where Lord Krishna says that 'he carries the responsibility of providing to his devotees, what they lack and also protect what they already possess'[1].

The first plan to form some sort of an insurance organization in India was proposed at the Government level. Sir John Child (Governor of Bombay, 1681-1690) was instructed by the court of Director of East India Company, to constitute an insurance office in the Bombay Island. However, it is not known about the suggestions (*Refer: Life Insurance Compendium 1999-2000).*

This Chapter tries to address the objective 1 of the report, which aims to review the growth and performance of the Indian insurance industry. The rest of the chapter is organized as: Section 2 discusses the meaning, origin, types, and importance of insurance in India. Section 3 analyses the trends and progress of Indian insurance industry in the global market and Section 4 the performance of the life & non-life of insurance in India, since their inception. Section 5 discusses the micro-insurance performance in India. Section 6 analyses the performance of postal and rural postal life insurance (PLI). Before concluding in section 8, section 7 projects a future outlook for the industry.

[1] Verse 22, Chapter 9, Source: holy-bhagabad-gita.org

2.2 Origin, Meaning, Types and Importance of Insurance

2.2.1 Origin of Insurance

Insurance, in its most basic form, is sharing of risks between two or more parties. It initially started as an informal exercise amongst the traders in Europe. Trade in those days was carried out by ships and the traders knew that there were definitely going to be losses and unpredictable damages due to pirates or bad weather and sometimes ice-bergs but the traders were not sure about, which ship would face the disaster. In any case, the trader, whose ship faced a disaster, was left in penury. This led to an informal association of sorts, where the traders contributed some money into a fund, which was used to compensate the loss of the individual trader. Thus, in the Western World, life insurance evolved mainly from the maritime industry. Shakespeare speaks of *'putters out of five'* in some of his plays - an oblique reference to private financiers who used to gamble on the lives of sea-farers by offering five times the money deposited with them in case of certain contingencies.

2.2.2 Meaning & Types of Insurance

In simple term, insurance is defined as a risk-transfer mechanism that ensures full or partial financial compensation for the loss or damage caused by event(s) beyond the control of the insured. Under an insurance contract, the insurer indemnifies the insured against a specific amount of loss, occurring from particular eventualities within a specified period, with a price, called premium. The *Encyclopaedia Britannica* describes insurance as 'a social device whereby a large group of individuals, through a system of equitable contributions, may reduce or eliminate certain measurable risks of economic loss common to all members of the group'. Thus, insurance is a form of risk management, which primarily used to hedge the risk against the uncertain loss/event. Broadly, insurance can be classified into *two* types/classes; a) Life insurance and b) Non-life or General insurance.

(a) Life Insurance: is a contract between an insurance policyholder and an insurer, where the policy holder pays a *'premium'* regularly or as a lump sum and the insurer promises to pay a designated beneficiary, a sum of money (the 'benefits') upon the death of the insured person. Depending on the contract, other events such as terminal illness or critical illness may also trigger payment. The life contracts tend to fall into two major categories: *(i) Protection policies* are designed to provide benefit in case of a specified event happened against a lump sum payment. *(ii) Investment policies,* on the other hand, are a mix of life benefit and growth of capital by single or regular premiums.

(b) Non-Life Insurance: Insurance, other than life, falls under the category of general/non-life insurance. The non-life insurance business in India is largely dominated by four segments, namely, fire, marine, motor vehicle and health insurance.

2.2.3 Importance of Insurance

A healthy insurance sector is of vital importance to every modern economy. It encourages the savings habit, provides a safety net to rural and urban enterprises and productive individuals, and generates long-term funds for infrastructure development. The insurance industry plays a significant role in India's economy. Insurance is necessary to protect enterprises against risks such as fire and natural disasters. Individuals require insurance services in such areas as healthcare, life, property, and pension. Development of insurance is, therefore, necessary to support continued economic transformation. Social security and pension reforms also benefit from a mature insurance industry.

The life insurance products provide a range of financial services to the consumers and provide an alternative source of investment in the capital market. It provides individuals and the economy with several important financial solutions. Life insurance products encourage long-term saving by individuals and help life insurance companies to raise sizable long-term funds and to reinvest such substantial sum in public and private sector projects. By leveraging their role as financial intermediaries, life insurers have become a key source of long-term finance, encouraging the development of capital markets. While, the non-life insurance enables individuals and entrepreneurs to undertake activities with higher risk and higher return than they would otherwise consider, thus promoting higher productivity and growth (Beck and Webb; 2003).

In macroeconomic context, the link between high growth rates and savings is well known from the classical growth theory. In the context of India, a number of studies indicate that a growth rate of 8% is possible, only with a savings rate of above 25%. The table 2.1 below specifies the trend of savings starting from 1950-51 to 2016-17. It clearly indicates that there is a strong correlation between, the growth of Gross Domestic Savings (GDS) and that of Gross Domestic Product (GDP), which stands at 0.99 during the period 1950-51 and 2016-17.

Table 2.1: Gross Domestic Savings (GDS) (Rs Billion)										
	1950-51	**1960-61**	**1970-71**	**1980-81**	**1990-91**	**2000-01**	**2007-08**	**2008-09**	**2010-11**	**2016-17**
Gross Domestci Product (GDP)^	104	179	510	1,496	5,862	21,774	49,871	56,301	77,841	151,837
growth (YoY %)	..	9.5	6.8	19.0	16.8	7.6	16.1	12.9	20.2	11.0
Inflation (Avg WPI %)	4.6*	6.6	5.5	18.2	10.3	7.2	4.7	8.1	9.6	
Gross Domestic Savings (GDS)	10	21	68	266	1,344	5,155	18,363	18,026	26,217	44,189
Household Savings (HHS)	7	12	45	181	1,086	4,638	11,183	13,309	18,002	26,215
Financial Savings (FS)	1	5	14	86	496	2,152	5,802	5,710	7,739	15,142
Currency	..	..	3.55	16.25	62.51	156.32	813	922	1,371	-3,168
Bank Deposits	..	..	7.54	55.5	187.77	947.09	3,890	4,178	5,483	10,958
Non-banking Deposits	..	..	0.67	3.78	12.86	30.04	13	147	51	341
Life Insurance Fund	..	..	2.07	9.15	55.99	338.61	1,698	1,529	2,101	4,407
Provident and Pension Fund	..	..	4.9	21.22	111.55	508.63	715	734	1,411	2,961
Physical Savings (PS)	6	8	32	95	590	2,485	5,381	7,598	10,263	14,952
Memo:										
GDS % GDP	9.5	11.6	13.4	17.8	22.9	23.7	36.8	32.0	33.7	29.1
HHS % GDS	68.9	59.0	66.4	68.1	80.8	90.0	60.9	73.8	68.7	59.3
FS % HHS	9.1	37.2	30.3	47.5	45.7	46.4	51.9	42.9	43.0	57.8
Life Fund % of FS	..	..	15.1	10.6	11.3	15.7	29.3	26.8	27.1	29.1
Source: RBI ^ market Prices, * 1953-54										

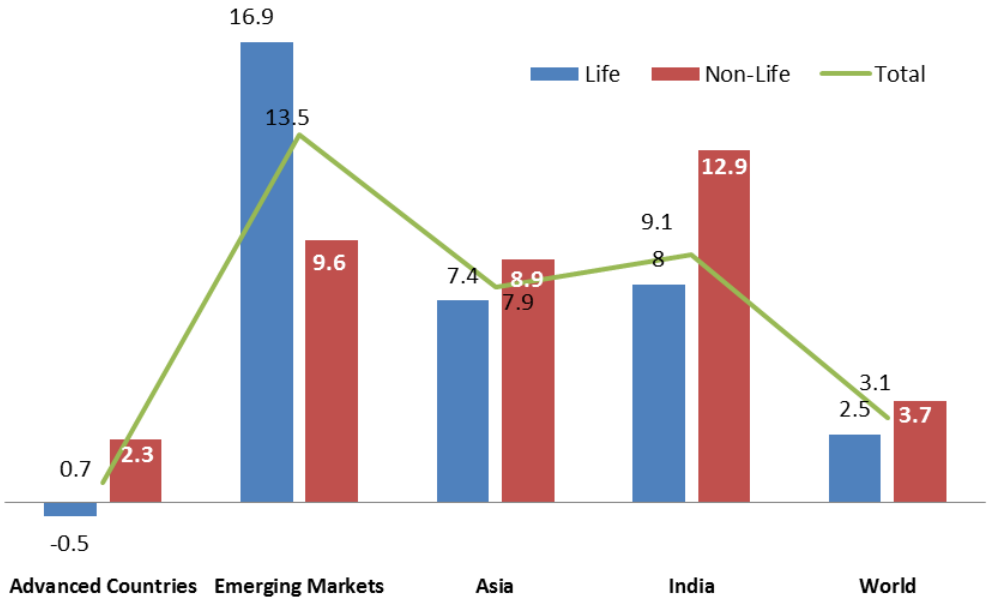
In literature, it is well-argued that there is a positive relationship between savings and insurance premium (Parida and Acharya; 2014). So, any study on insurance business needs to look into the other saving activities of the households. The household sector savings - include physical and financial savings - and accounted for around 59% of the gross domestic saving (GDS) in 2016-17 compared to 73% in 2008-09 and 68.0% in 1950-51. However, the concern is that 'financial saving' share in household savings has declined to 42.9% in 2008-09 from the peak of 51.9% in 2007-08. In 2016-17, the share of financial savings in total household savings increased to 57.8%, which is mainly due to the changes in methodology by Central Statistical Organisation (CSO) following the shift in the base year to 2011-12 in the calculation of GDP. Meanwhile, an increasing trend of 'life fund' in 'financial saving', indicates that insurance business contributes more, followed by bank deposits, to financial savings in the country. The 'life fund' accounts around 25% share in 'financial saving' of the household sector and 5% in GDS of India. The 'life fund' share in household financial saving is 29.1% in 2016-17, mainly due to a slowdown in the economy. There is also a strong correlation of 0.98 between the household financial saving and life fund for the period 1970-71 to 2016-17.

2.3 Insurance Scenario: India vs. World

According to the 'World Insurance in 2016' report published by reinsurance major, *Swiss Re*, growth in the global economy was little changed in 2016 from the previous year with the real gross domestic product (GDP) up by 2.5%. As per the report, the real global direct life and non-life insurance premiums written grew by 3.1% in 2016, down from 4.3% in previous year. The slowdown was mainly driven by considerable lower growth in advanced markets. Robust

premium growth in China supported the emerging market which was otherwise also in slowdown mode.

Figure 2.1: Real Premium Growth Rate in 2016: Cross Country



Source: Sigma, Swiss Re

Global life premium growth slowed to 2.5% to USD 2617 billion (2015: 4.4%). Premiums in advanced markets contracted by 0.5% while they grew rapidly in the emerging economies, driven by China. Emerging market life premiums increased by 17% in 2016, more than double the long-term average, supported by solid performance in emerging Asia. Global non-life premium growth slowed to 3.7% to USD 2115 billion (2015: 4.2%). The advanced markets were the main reason for the slowdown (2.3% in 2016 after 3.3% in 2015). Emerging market non-life premiums growth of 9.6% (2015: 7.9%) was mainly driven by China.

Interest rates have been low for close to a decade, and this affected life and non-life insurers' profitability yet again in 2016. Return on equity (ROE) declined in both sectors. In life, moderate premium growth in many markets also dragged on profitability, while the non-life sector was further impacted by lower underwriting results. Both the life and non-life insurance sectors remain well capitalized, however.

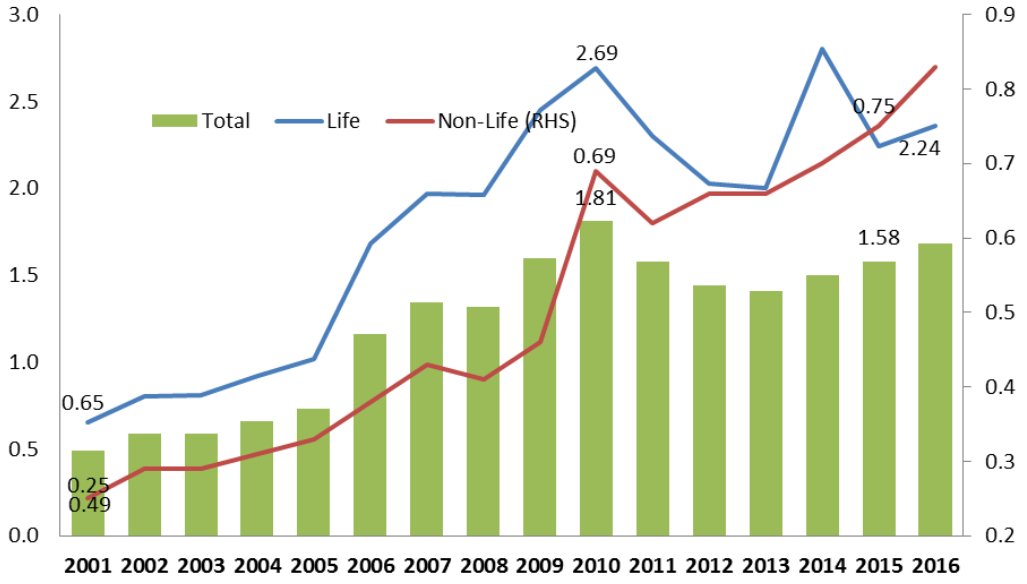
Global life premium growth is expected to improve over the next few years, mainly driven by the emerging markets. Growth in the non-life sector is expected to remain moderate, driven mainly by advanced economies.

2.3.1 Indian Insurance Sector in Global Scenario

Globally, the share of life insurance business in total premium was 55.3%. However, the share of life insurance business for India was very high at 77.95% while the share of non-life insurance business was small at 22.05%. In life insurance business, India is ranked 10 among the 88 countries, for which data is published by Swiss Re. India's share in global life insurance market was 2.36% during 2016. However, during 2016, the life insurance premium in India increased by 8 percent (inflation adjusted) when global life insurance premium increased by 2.5%.

The Indian non-life insurance sector witnessed a growth of 12.9% (inflation adjusted) during 2016. During the same period, the growth in global non-life premium was 3.7%. However, the share of Indian non-life insurance premium in global non-life insurance premium was small at 0.83% and India ranked 15 in global non-life insurance markets. India's market share in the global insurance industry is showing a continuous improvement till 2010 but declined thereafter due to contraction in new business premium collections in the country. The trend has now been changed and is continuously increasing.

Figure 2.2: India's Progress in Insurance Business in the World (% Share)



Source: Sigma, Swiss Re

Table 2.2: Cross Country Comparison of Insurance Penetration & Density (2016)						
Country	Insurance Density (US $)			Insurance Penetration (%)		
	Life	Non-Life	Total	Life	Non-Life	Total
UK	3033	1031	4064	7.58	2.58	10.16
US	1725	2449	4174	3.02	4.29	7.31
France	2228	1168	3395	6.06	3.17	9.23
South Africa	616	147	763	11.52	2.74	14.27
Switzerland	3700	3233	6934	4.72	4.12	8.85
Japan	2803	928	3732	7.15	2.37	9.51
India*	**47**	**13**	**60**	**2.72**	**0.77**	**3.49**
China	190	147	337	2.34	1.81	4.15
Singapore	2895	882	3777	5.48	1.67	7.15
South Korea	2050	1312	3362	7.37	4.72	12.08
World	353	285	638	3.47	2.81	6.28
Source: Swiss Re, Sigma 4/2017; * data relates to financial year 2016-17						

2.3.2 Insurance Penetration & Density in India

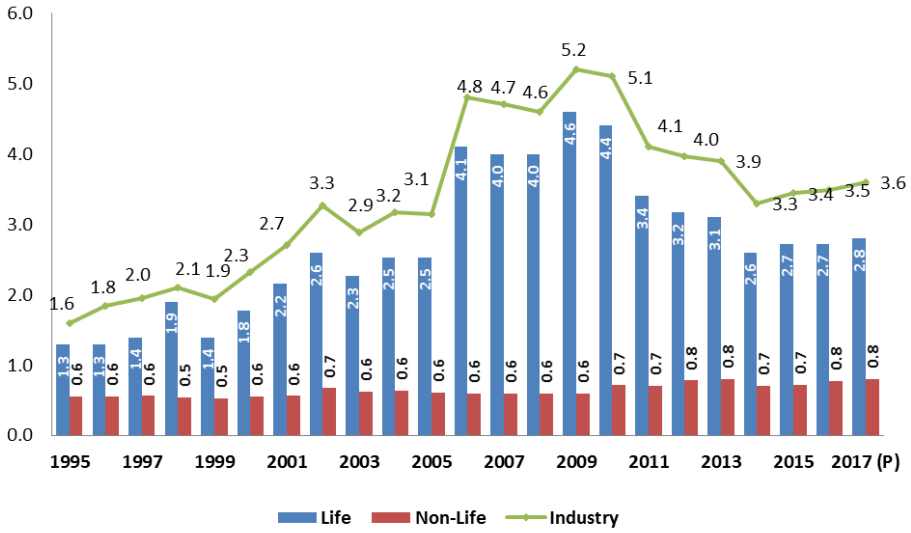
In the global market, insurance penetration[2] and density[3] is universally accepted as a measure of the performance and development of the insurance sector. In comparison with other countries in the World (refer table 2.2), India's insurance penetration is at a very low level of 3.5% (Life: 2.7% & Non-life: 0.8%) in 2016, which is much lower than the World average of 6.3% (Life: 3.5% & Non-life: 2.8%). Although, the penetration of Indian insurance is higher than that of some South Asian countries like Pakistan (0.9%), and Sri Lanka (1.1%), it lags behind other developed countries like US (7.3%), UK (10.2) and Asian countries like Japan (9.5%), South Korea (12.1%) and Singapore (7.2%). Further, India's insurance density is also at a very low level of $60 in 2016-17 (Life: $47 & Non-life: $13), compared to World average of $638 (life: $353 & non-life: $285).

The figure 2.3 indicate that India's insurance penetration has consistently gone up from 2.7% in 2001 (Life 2.2% and Non-life 0.6%) to 5.2% (Life 4.6% and Non-life 0.6%) in 2009, before it fell to 3.3% (Life 2.6% and Non-life 0.7%) in 2014. However, the trend is reversing and is at 3.5% (life: 2.72% & 0.77% non-life) in 2016-17. A similar trend is also observed in insurance density (refer figure 2.4). The life insurance density in India has gone up from $11.5 (life $9.1

[2] Insurance Penetration is measured as ratio of Premium (in US Dollars) to GDP (in US Dollars)
[3] Insurance Density is measured as ratio of Premium (in US Dollar) to Total Population

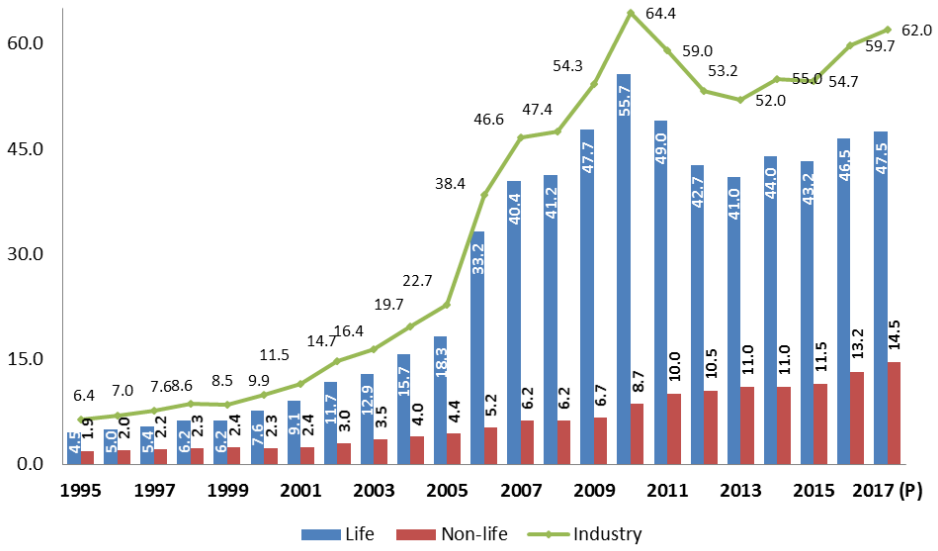
and non-life $2.4) in 2001 to $59.7 (life: $47.5, non-life: $13.2) in 2016 though it reached the peak of $ 64.4 (life $55.7 and non-life $8.7) in 2010.

Figure 2.3: Insurance Penetration in India (% GDP)



Source: Sigma, Swiss Re

Figure 2.4: Insurance Density in India (USD)



Source: Sigma, Swiss Re

The insurance penetration and density trend indicate that it has declined after 2010, which may be due to transitional effects of global financial crisis 2008 on the Indian economy, regulatory changes by IRDAI in 2010 to restrict unit-linked insurance plans (ULIPs) etc. While, in the recent times, the trend is reversing from 2015 and showing an upward momentum. Going forward, we believe, with the increase in awareness among the customers and the policy

support by Government and IRDAI, the upward trend will continue, as the industry has matured and accepted the changes in regulation effectively. A number of estimates suggest that both insurance penetration and density will touch to 5% and $80 respectively, in the next 5 years.

2.4 Evolution of Insurance in India

The study divides the history of the existence and working of insurance organisations in India into three phases (refer table 2.3).

Table 2.3: An Aggregative View of Indian Insurance Industry

Phase I		
a) Life Insurance	▪ 1818 to 1956 (about 138 years)	▪ Many (245) private companies: ***Competitive market***
b) General Insurance	▪ 1850 to 1972 (about 122 years)	▪ Many (107) private companies: ***Competitive market***
Phase II		
a) Life Insurance	▪ 1956 to 2000 (about 44 years)	▪ Nationalisation, Public Sector ***Monopoly***; Only 1 company
b) General Insurance	▪ 1972 to 2000 (about 28 years)	▪ Nationalisation, Public Sector ***Monopoly***; One Company with 4 Subsidiaries
Phase III		
c) Life Insurance	▪ After 2000	▪ Opened to the entry of private domestic and foreign companies
d) General Insurance		▪ Mix of Public & Private companies

Source: Bhole L M (2004) & Author's Compilation

2.4.1 Phase I of Insurance Evolution (Before Nationalisation)

Life Insurance in the modern form had its origin in England and made its debut in India in the year 1818, with the establishment of the *Oriental Life Insurance Company* in Calcutta followed by the Bombay Assurance Company in 1823 but the Oriental Insurance company failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. These companies were operating in India but did not insure the lives of Indians. Their services were to cater the needs of the European Community living in India. However, some of the companies later started insurance services for the Indians but they were treated as 'substandard'[4]. In this case, the common adjustment made was a 'rating up' of five to seven years to normal British Life in India. This meant, treating p(x), (the conditional) probability of dying between x and x+1, for an x year old Indian male as if it was p(x+5) or

[4] Substandard in insurance parlance refers to lives with physical disability.

p(x+7) for a British male. So, the Indian lives had to pay an ad hoc extra premium of 20% or more. This was a common practice of the European companies at the time whether they are operating in Asia or Latin America. The first company to sell policies to Indian with 'fair value' was the Bombay Mutual Life Assurance Society that started in 1871.

Due to the failure of a number of insurance companies in India, the British Government enacted the British Insurance Act in 1870. There was an increasing demand to start a State controlled life insurance company, which the Government turned down without any reasons. In the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Presidency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

The first general insurance company to operate in India was the Triton Insurance Company, established in 1850. This was British owned and operated company. The Indian Mercantile Insurance Company Ltd, established in Bombay in 1907, was the first indigenous insurance company. Insurance business was conducted in India without any specific regulation; however, the companies were subject to the Indian Companies Act 1866. In 1912, two sets of regulations were passed: (i) the Indian Life Insurance Companies Act and (ii) the Provident Insurance Societies Act. In this legislation, there were a number of remarkable features available; first, this was the first legislation in India that particularly targeted the insurance sector. Second, the legislation left the general insurance business out of it, as the Government did not feel the necessity to regulate it. Third, they restricted activities of the Indian insurers but not the foreign insurers. After all, the *Insurance Act 1912* provided the first legislation aimed at regulating the insurance companies.

The only significant legislative changes before the insurance Act 1938 was Act XX of 1928. It helped the Government of India to collect information about (i) Indian Insurance Companies operating in India, (ii) Foreign Insurance Companies operating in India and Indian Insurance Companies operating in foreign countries. The last two points were missing in the Insurance Act 1912. Thus, the collected information helped to compare the average size of the policy of Indian Insurance Companies against their foreign counterparts. As per the Indian Insurance Commissioner's Report, the average size of the policy sold by Indian companies fell to $532 in 1938 ($619 in 1928) compared to $1,188 ($1,150 in 1928) for the foreign companies. This was basically due to the robustness and better performance of foreign companies in India.

Table 2.4: Growth of Life Business in India in Pre-Nationalisation Period (1914-1955)							
Year	No of Insurers	of which Indian*	New Business		Business in Force		Life Fund
			No of Policies (000)	Sum Assured (Rs crore)	No of Policies (000)	Sum Assured (Rs crore)	(Rs Crore)
1914	49	36		3.2	-	-	6.36
1915	-	40		2.25	-	-	6.77
1920	-	43	28	5.16	-	-	8.47
1925	-	49	43	8.15	-	-	12.57
1930	68	68	145	27.5	564	124	20.53
1935	-	215	239	43.5	1095	235	35.19
1940	195	179	206	36.11	1553	286	62.41
1945	215	198	599	136.3	2392	557	107.4
1950	209	185	498	139.5	3280	780	181.5
1955	245	229	831	260.8	4782	1220	299.7
Source: EPW, Privatisation and Foreign Participation in (Life) Insurance Sector, March 25, 2000 * includes Indian Insurers and Provident Societies							

By the year 1938, more than 100 insurance companies were doing business in India but the industry was plagued by fraud and mismanagement of funds. In 1937, the Government of India set up a consultative committee under the Chairmanship of Mr Shusil C. Sen, a well-known Calcutta solicitor. Finally, the Insurance Act, 1938 was passed to give order to the industry; it also brought other fundamental changes, including the creation of an insurance wing in the Ministry of Finance. This piece of legislation was the first comprehensive one in India and covered both life and general insurance companies. The important legislations included: deposits for the life insurance business, supervision of insurance companies, investments, commission of agents and directors appointed by the policy holders among others. However, this Act lost its importance after the nationalisation of life Insurance in 1956 and General insurance in 1972 respectively. With the privatization/deregulation of the sector in the late 20th century, the Insurance Act 1938 has turned out to be the backbone of the current legislation of insurance companies, as Insurance Regulatory and Development Authority Act of 1999 was superimposed on the Insurance Act 1938.

2.4.2 Phase II of Insurance Evolution (Nationalisation Era)

2.4.2.1 Life Insurance in India

The enactment of the Insurance Act 1938 provided stability to the growing insurance business and the earlier legislations were consolidated and amended to protect the interest of the insuring public. There were a large number of insurance companies and the level of competition was

high. However, there were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business. An Ordinance was issued on 19th January, 1956 nationalizing the Life Insurance sector and *Life Insurance Corporation of India (LICI)* came into existence under the introduction of the Life Insurance Act on 01 September, 1956. The LIC absorbed 245 Indian and foreign insurers, including 154 Indian, 16 non-Indian insurers and 75 provident societies. In terms of provisions of the LIC Act, the Government of India contributed Rs 5 crore toward capital fund of the Corporation. The then Finance Minister, Shri C. D. Deshmukh, while piloting the bill, outlined the objectives of LIC: (i) to conduct the business with the utmost economy, in a spirit of trusteeship; (ii) to charge premium no higher than warranted by strict actuarial considerations; (iii) to invest the funds for obtaining maximum yield for the policy holders consistent with safety of the capital; and (iv) to render prompt and efficient service to policy holders, thereby making insurance widely popular. Thus, nationalisation aimed at overcoming the inefficiency and malpractices involved during the period of private insurance operations, to make life insurance widespread under Government control, to restore public confidence and to ensure maximum security to the policy holders' capital. At the same time, nationalisation also aimed at using the funds available with LIC for development under 5-yr plans[5].

Further, LIC has formulated its objectives in pursuance of recommendations of the Administrative Reforms Commission. Since nationalisation, LIC has built up a vast network of 2,048 branches, 100 divisions and seven Zonal offices spread over the country. The Life Insurance Corporation of India also transacts business abroad through joint ventures, subsidiaries and also through own offices. LIC plays an important role in the economy for two reasons: (a) as a national insurance agency it serves to pool and redistribute risks associated with the policy holders in millions of households, and (b) as a major savings institution, it serves to mobilise a large number of small savings. LIC is a dominant financial intermediary in the economy as it serves to channel investible funds into productive sectors of the economy. These two aspects of LIC together raise a number of issues concerning its present state and future role in the economic development of India. During the period 1956 to 1999, LIC emerged as a giant financial institution and the sole organisation purveying life insurance, if we ignore the minimal presence of postal life insurance. The institution succeeded in

[5] In 1974 as a follow up to the recommendations suggested by the Administrative Reforms Committee, appointed by Government of India, the LIC explicitly aimed at bringing all possible sections of the society under life insurance by making it cheaply available, maintaining it economically and increasing the productivity of the personnel.

penetrating many areas and segments of the population and in garnering public money for public welfare.

Major Achievements of LIC

The major achievements of the Indian Life insurance industry after the nation's independence can be best visualised through the performance of LIC vis-a-vis fulfilment of its objectives. Some of them are outlined below:

- **Spread of Insurance at a Reasonable Cost:** This was the first and foremost objective of the Corporation. At the time of nationalisation, the total new business of the 245 erstwhile insurance companies was around Rs 200 crore of sums assured. The table 2.5 indicates that the business growth numbers are robust, as the number of policies increased by 15 fold and sum assured rose by 194 fold during the period 1957 to 1998. The individual business in force of the Corporation as on 1998 stands more than 850 lakh policies for a sum assured of over Rs 4 lakh crore, which can be observed from the following table:

Table 2.5: LIC's Business Performance

Year	Individual New Business			Individual Business in-force	
	Policies (in lakhs)	Sum Assured (Rs. In Crores)	First Year Premium (Rs. Crore)	Policies (in lakhs)	Sum Assured (Rs. in Crores)
1957*	9.3	328.1	13.1	56.9	1,474.0
1969-70	14.0	1,025.8	41.4	140.4	6,425.0
1979-80	21.0	2,733.1	134.3	220.9	19,242.6
1989-90	73.9	23,219.5	1,053.8	404.0	94,823.2
1997-98	133.1	63,617.7	3,371.5	850.0	400,747.9

Source: Life Insurance Compendium, 1999-2000, * 16 months

Table 2.6: Rural Thrust (Individual Insurance)

Year	Policies (in Lakh)			Sum Assured (Rs. in Crore)		
	Total	Rural	% to Total	Total	Rural	% to Total
1960-61	16.62	5.34	36.53	598.79	182.59	30.49
1969-70	13.97	4.61	33.00	1,025.80	251.76	24.54
1979-80	20.96	5.91	28.20	2,733.11	603.77	22.09
1989-90	73.92	30.48	41.23	23,219.53	8,086.35	34.83
1997-98	133.11	68.40	51.40	63,617.69	27,550.69	43.00

Source: Life Insurance Compendium, 1999-2000

- **Spreading Insurance to Rural Areas:** In the pre-nationalisation period, life insurance was largely an urban phenomenon. It became the responsibility of the national insurer (LIC) to take insurance to every nook and corner of the country. In 1998, around 51% of the new policies were being sold in the rural areas and the impetus on rural thrust can be further observed from the fact that nearly half of LIC agents were from rural areas and over half of its branches were in village areas.

- **Mobilising Savings and Deployment of the funds to serve the Best Interest of Policy Holders and the Nation:** Another important goal of the LIC was to mobilise savings from the different pockets through insurance-linked saving schemes and invest these funds for the planned development of the country. The rate of mobilising savings increased steadily. In 1957, the total premium income was Rs 88.7 crore. By 1980, it had grown 10 times and by 1998, it crossed 200 times.

Table 2.7: LIC's Total Premium Income & Life Fund

Year	Total Premium (Rs. Crore)	Annualized Growth (%)	Life Fund (Rs. in Crores)	Annualized Growth (%)
1957*	88.7		447.8	4.5
1969-70	260.4	10.9	1,611.0	6.1
1979-80	875.4	13.0	5,818.1	7.9
1989-90	4,489.4	30.8	23,471.8	11.1
1997-98	19,252.1	18.6	105,832.9	12.4
1998-99	22,805.8	18.5	127,389.1	20.4

Source: Life Insurance Compendium, 1999-2000, * 16 months

The steady increase in premium collections has resulted in an ever increasing reservoir of life fund, which has grown from a deficient Rs 410 crore in 1957 to over Rs 1,05,832 crore in 1998. In the meanwhile, the extent of contribution of LIC's investments to the nation's planned development is immense.

Table 2.8: LIC's Investment during Five Year Plan Period

Plan	Year	Investments (Rs Crore)
II	1956-57 to 160-61	184
III	1961-62 to 1965-66	285
IV	1969-70 to 1973-74	1530
V	1974-75 to 1978-79	2942
VI	1980-81 to 1984-85	7140
VII	1985-86 to 1989-90	12969
VIII	1992-93 to 1996-97	56097
IX	1997-98 to 2001-02	19477

Source: Life Insurance Compendium, 1999-2000

Table 2.9: LIC's Performance at a Glance								
Year	**1957**	**1969-70**	**1974-75**	**1979-80**	**1995-96**	**1996-67**	**1997-98**	**1998-99**
TOTAL NEW BUSINESS								
Individual (Rs. In Crore)	336.37	990.03	1772.61	2744.33	5207.53	56993.94	63927.83	-
Group (Rs. In Crore)	-	46.05	1339.82	5262.06	62697.99	77559.34	66085.61	76619.21
BUSINESS IN FORCE								
Individual (Rs. In Crore)	1476.52	6348.09	11852.25	19242.55	295758.05	344619.35	400747.88	-
Group (Rs. In Crore)	5.29	77.17	1457	6137.46	64651.54	64606.6	74798.75	-
No of Polices in Force (In Lakhs)	56.86	140.4	188.2	220.94	709.6	777.5	850.3	-
Total No of lives covered under Group (In Lakhs)**	-	-	23.34	58.41	250.68	244.5	281.93	-
Life Fund (Rs. In Crore)	410.40	1611.03	3033.79	5818.09	72780.06	87759.963	105832.89	123789.06
INVESTMENT (Rs. In Crore)								
a) Book value of total investments	381.90	1514.26	2798.43	5747.51	65057	82665	98948	120445
b) Book value of socially oriented investments	-	513.21	1218.52	2472.29	50446	6107	73082	88831
Claims Settlled Number (In Lakhs)	-	3.21	4.68	7.19	41.67	49.49	56.52	
First Year (Rs. In Crore)	13.72	41.90	85.67	135.11	2379.02	2877.24	3382.98	4071.73
Renewal Premium (Rs. In Crore)	74.35	214.71	411.70	690.15	10770.55	12946.05	15166.34	17710.22
Source: Life Insurance Compendium, 1999-2000 ** Including Capital Redemption and Annuity Insurance Business								

2.4.2.2 Non-life Insurance in India

The history of non-life insurance can be traced back to the early civilisation. As civilisation progressed the incidence of losses started to increase by giving rise to the concept of loss sharing. Loss sharing was also practised by the Aryans through their village cooperatives. It was also practised by the Mediterranean merchants in 4th century BC through the issue of Bottomry Bonds. The code of Manu indicates that there was a hint of marine insurance being carried out by the traders in India with Sri Lanka, Egypt and Greece. The earliest transaction of insurance as practised today can be traced back to the 14th century AD in Italy when ships were only being covered. This practice of Marine Insurance gradually spread to London and during the 16th century it was established in the mercantile transactions. The history of marine insurance is closely linked with the origin and rise of the Lloyds Ship-owners. Captains and Merchants used to gather in a coffee-house to deal with the various problems. Individual merchants started adopting marine risks to their other line of activities. The Lloyd's Act was framed to set up the Lloyd's by which they were empowered to transact other classes of insurance. Today, Lloyds is regarded as the largest insurance underwriter in the world.

General insurance in India was originated from UK, where the British transacted general insurance business through their agencies in India. The first general insurance company, Triton Insurance Company Ltd, was established in Calcutta in 1850, whose shares were held mainly by the British. The first insurance company to be set-up by the Indians for transacting all classes of general insurance business was Indian Mercantile Insurance Company Ltd at Bombay in the

year 1907. The British and other foreign insurers had a good share of insurance business, about 40%, at the time of Independence. However, this share declined progressively thereafter. In 1957, the General Insurance Council, a wing of the Insurance Association of India, was set up, which framed a code of conduct for ensuring fair conduct and sound business practices in general insurance. In 1968, the Insurance Act 1938 was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee (TAC) was also set up and became a statutory body. The TAC was seen as an independent, impartial, scientifically driven body for rate making in general insurance. However, after the nationalisation of general insurance, TAC became handmaiden, as members of TAC are from Chairmen of the general insurance companies.

Further, with the passing of the General Insurance Business (Nationalisation) Act 1972, general insurance business was nationalized with effect from 1st January 1973. The then existing 107 insurers were amalgamated and grouped into four subsidiary companies of GIC, namely the National Insurance Company Ltd, the Oriental Insurance Company Ltd, the United India Insurance Company Ltd and the New India Assurance Company Ltd. Collectively, these 4-subsidiaries are known as ***NOUN*** for their initials. The General Insurance Corporation of India (GIC) was incorporated as a company in 1971 and it commenced its business on 1st January 1973. The GIC is also designated as the National Reinsurer (GIC Re). The new structure of General Insurance has several objectives, like (i) the subsidiary companies were expected to 'set up standards of conduct and sound practices in the general insurance business and rendering efficient customer service'; (ii) the GIC was to help with 'controlling their expenses'; (iii) it was to help with investment of funds; (iv) to spread general insurance to the rural areas and (v) all the 4 subsidiaries are supposed to compete with each other.

Table 2.10: Growth of General Insurance Business (1973 to 1998)

Particulars	1972-73	1984-85	1992-93	1995-96	1997-98
Gross Direct Premium*	-	-	10173	15548	19627
% growth	-	-	14.9	17.9	9.1
Net Premium Income	2223	11905	7683	11316	14027
Net Claim Incurred	1129	7949	6155	9504	11543
Commission, Expenses of Management. etc.	680	2866	1495	2903	3495
Operating Surplus	-	-	33	-1091	-1011
Profit after Tax	139	1567	770	469	1485
Total Assets	-	-	18314	31148	40333

Source: General Insurance Compendium, * within & Outside India

Some of the important milestones in the General Insurance Business in India are outlined in the following table:

Table 2.11: Milestone's in the General Insurance Business in India

Year	Significant Regulatory Event
1907	• The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance business
1957	• General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices
1968	• The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.
1973	• The General Insurance Business (Nationalization) Act, 1972: nationalized the general insurance business in India with effect from 1st January 1973. • 107 insurers amalgamated and grouped into four companies viz. the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd. GIC incorporated as a company.

Thus, nationalisation of both life and non-life insurance industry in 1956 and 1972 respectively, transformed the competitive, private insurance industry into a monopolistic and oligopolistic State or Public Sector insurance industry in India. However, the insulated from competitive market forces, the nationalized insurance monopolies of India have not really contributed to the economic development of India and the insurance penetration and density remained at low level.

2.4.3 Phase III of Insurance Evolution (Post-Deregulation)

The process of re-opening of this sector had begun in the early 1990s, when Government of India had appointed a committee headed by Mr. R.N. Malhotra in April 1993 to propose recommendations for reforms in the insurance sector. The committee submitted its report in January 1994 and recommended that the private sector should be permitted to enter the insurance industry. Following the recommendations of the Committee, in 1999, the Insurance Regulatory and Development Authority of India (IRDAI) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDAI was incorporated as a statutory body in April, 2000. The key objectives of the IRDAI include promotion of competition so as

to enhance customer satisfaction through increased consumer choice and lower premiums while ensuring the financial security of the insurance market.

The IRDAI opened up the market in August 2000, to private players with a foreign investment cap of 26% in equity shareholding. With the private and foreign players' participation, the Indian insurance industry is transforming from a monopoly (2001) to a competitive market structure. As of end March 2017, the industry constitutes a total of 62 insurers; of which 24 are life insurers, 23 are general insurers, 6 are health insurers exclusively doing health insurance business and 9 are re-insurers including foreign reinsurers' branches and Lloyd's India.

Table 2.12: Registered Insurers in India (March 2017)

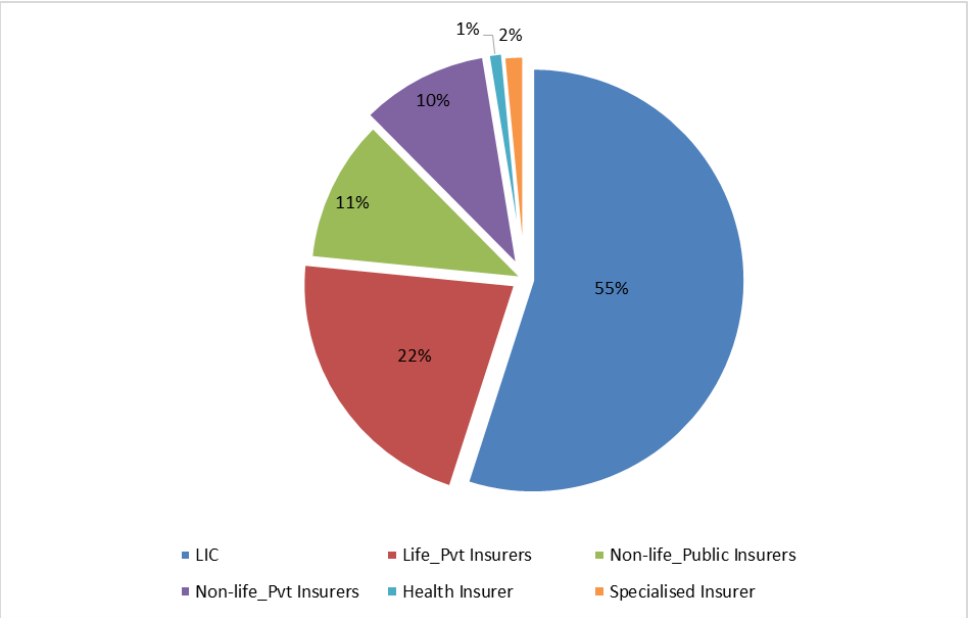
Type of Business	2000	2017		
	Public Sector	Private Sector	Public Sector	Total
1. Life Insurance	1	23	1	**24**
2. General	4	17	6	**23**
Specialised Insurers	1	0	2	**2**
3. Health Insurance	0	6	0	**6**
3. Reinsurance	1	1	8	**9**
Total	**6**	**54**	**08**	**62**

Source: IRDAI Note: List of registered insurers is given in Annexure 1

Further, the Government raised the FDI limit cap up to 49% in the insurance business in the year 2015, with the provision that the 'management and control' of these companies will be with Indians. The 49% FDI cap will be a composite of both foreign portfolio investment (FII) and Foreign Direct Investments (FDI). Due to the liberalised policy, there 1 private and 7 foreign reinsurers have entered the Indian market through branches with huge aspirations to tap the insurance business in the country. Additionally, around Rs 2100 crore of foreign capital has been infused in the sector during the year 2016-17.

The present structure of Indian insurance sector is given in the below figure 2.5:

Figure 2.5: Structure of Indian Insurance Industry (% Market Share)



Source: IRDAI

2.4.3.1 Life Insurance Performance

Since liberalization, Indian life insurance industry has gone through two cycles; *first* one is characterized by a period of high growth (CAGR of approx. 30% in new business premium in 2000-01 to 2010-11) and the second one, is noted as a period of mere 7% CAGR growth in new business premium for the period 2011-12 to 2016-17. Today, LIC is competing with 23 private-sector insurers in the industry, who have commenced operations over the period 2000-15. After the entry of private players in the life insurance business in India, LIC lost its market share from 100% in FY01 to 69.8% in FY11. However, interestingly it gained market share and reached at 75.5% in FY14 but declined thereafter to 71.8% in FY17. Out of 24 life insurers in operations during 2016-17, 18 companies have reported profits.

Table 2.13: Business Performance of Life Insurance Sector										
Particulars	**2000-01**	**2001-02**	**2005-06**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
No. of Insurers	5	12	15	23	24	24	24	24	24	24
No. of Branch Offices	2,199	2,306	3,865	11,546	11,167	10,285	11032	11033	11,071	10954
Number of New Policies issued (in lakhs)		254	355	482	442	442	409	259	267	265
1Yr Premium (including Single Premium) (Rs Crore)	9,707	19,857	38,786	126,381	113,942	107,361	120,320	113143	138862	175203
% Growth		104.56	47.93	15.01	-9.85	-5.78	12.1	-5.9	22.7	26.26
Total Premium (Rs Crore)	34,898	50,094	105,876	291,605	287,072	287,203	314,283	328,101	366943	418476.62
% Growth		43.54	27.78	9.85	-1.57	0.05	9.4	4.4	11.8	14.0
LIC Market Share (based on Total Premium)	99.98	99.46	85.75	69.78	70.68	72.70	75.39	73.20	72.61	71.81
No. of Individual Agents (Nos.)		476,902	1,423,839	2,639,392	2,358,885	2,122,757	2188500	2067907	2016565	2088522
Commission Expense Ratio (Total Premium)*				6.29	6.46	6.71	6.63	5.93	5.52	5.29
Life Fund (Rs. Crore)	194,010	230,369	397,189	841,075	974,620	1,120,000	1,288,225	1495309	1697453	1907953
PAT (Rs Crore)	291	594	-452	2,657	5,974	6,948	7,588	7611	7,415	7727.89
Source: IRDAI * is the ratio between commission expenses and the premium underwritten by life insurers										

Table 2.14: Business Performance of Non-Life Insurance Sector										
Particulars	**2000-01**	**2001-02**	**2005-06**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
No. of Insurers (incl. reinsurer)	9	13	15	25	25	27	28	29	30	38
No. of Offices				6,660	7,050	8,099	9,872	10407	10803	10547
Number of New Policies issued (in lakhs)			511	793	857	1,070	1,025	1183	1221	1525.33
Gross Direct Premium^ (Rs Crore)		12,385	21,339	43,842	54,578	62,973	70,610	79934	99333	130970.1
% Growth			15.6	22.4	24.2	19.1	12.1	13.2	14.0	31.9
Market Share of PSUs*		96.2	74.9	60.2	59.1	55.6	49.8	50.24	49.49	47.0
Incurred Claims Ratio#	88.0	78.3	88.4	93.3	88.9	82.8	82.0	81.7	85.1	90.9
Profit After Tax (Rs Crore)	-14	-72	1,747	-1,019	25	3,282	4,439	4,639	3238.48	
Source: IRDAI, * excluding GIC, AIC & ECGC, ^ Within & outside India, # net incurred claims to net premium										

2.4.3.2 Non-Life Insurance Business Performance

The Non-Life Insurance industry which grew at around 10% in the period 1996-97 to 2000-01, has reported an average annual growth of 17.1% in the period 2001-02 to 2016-17. In 2016-17, the non-life insurance business sector growth has increased by more than 25% in all segments, which is highest level of growth in all the years.

Figure 2.6: Group-wise Non-life Insurers Market Share (March 2017)

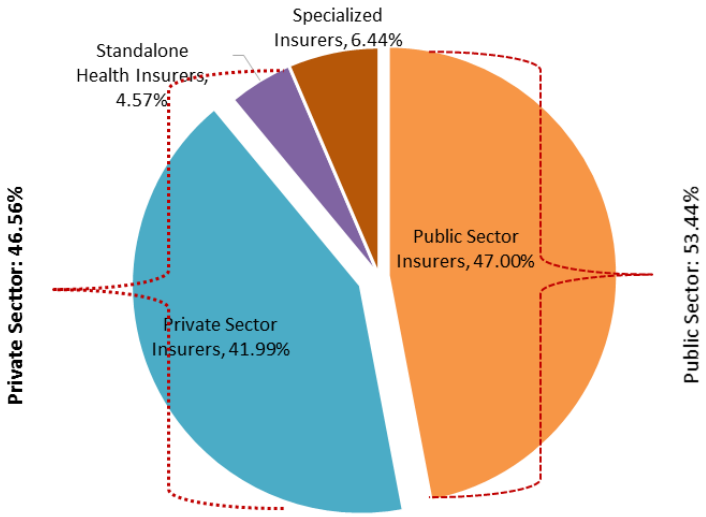
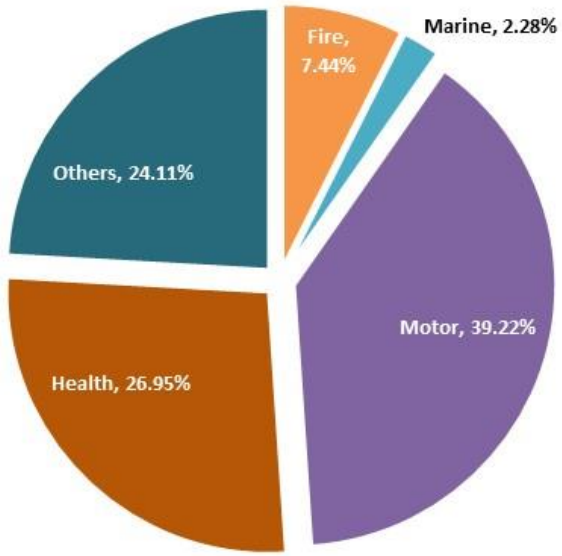


Figure 2.7: Segment-wise Market Share



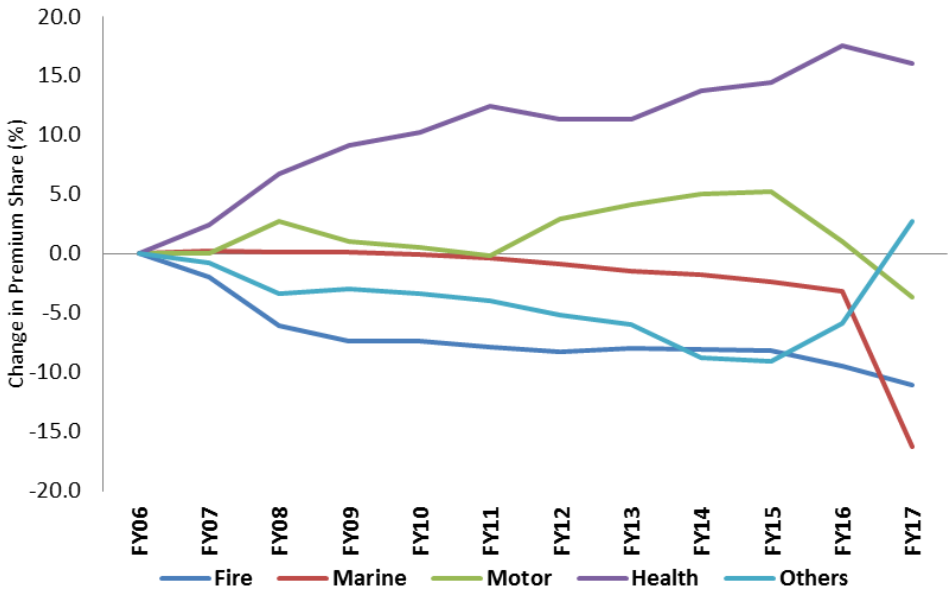
Source: IRDAI

The structure of the non-life insurance market based on the market share of the insurers as of March 2017 in Gross Direct Premium in India is given in figure 2.6. The public sector insurers are holding 53.44% market share; while multi-line private insurers are at 46.56%. The figure 2.7 indicates that among the business segments motor insurance market share is the highest of at 39.2% in the total non-life insurance business, followed by health insurance at 26.95%. The 4 public sector insurer's market share in health insurance business is 60%, while the 6 standalone health insurer's market share is 17% as on March 2017.

Health Insurance Business Lead to Change in Business Structure

The 'health insurance' business segment has been growing in a diverse path than the other Lines Of Business (LOB) segments. This has led the changes in the structure of the non-life insurance business in India, which can be noticed from the figure 2.8 and table 2.15. However, the structure of marine insurance and motor insurance business segments has not been changed, which may be due to regulatory decision to buy mandatory insurance for both the business segments. *So, this would be more interesting to access the extent of change in the structure of non-life insurance sector during the past of twelve years*.

Figure 2.8: Business Segment wise Change in Market Share* of Non-Life Insurance



Source: IRDAI, Parida (2015) *based on Gross Direct Premium

Table 2.15: Market Share Segment Wise Non-Life Insurance in Gross Direct Premium (India)													
	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	CAGR
Fire	18.5	16.6	12.4	11.2	11.2	10.7	10.3	10.6	10.4	10.4	9.1	7.4	8.79
Marine	6.3	6.5	6.5	6.4	6.3	5.9	5.4	4.8	4.5	3.9	3.1	2.3	7.75
Motor	42.9	42.9	45.6	43.9	43.5	42.7	45.8	47.1	47.9	48.1	43.9	39.2	17.24
Health	10.9	13.3	17.6	20.1	21.1	23.4	22.3	22.2	24.6	25.4	28.5	26.9	28.33
Others	21.4	20.6	17.9	18.4	18.0	17.3	16.2	15.4	12.6	12.2	15.5	24.1	19.52
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	
Source: IRDAI													

Measuring Structural Change in the Non-life Insurance Business

An attempts to assess the structural change in the business segments in the Indian non-life Insurance industry has been given below. To measure the structural change in the sector after health insurance business started operation in 2005, we have calculated two structural change (SC) index following *Dietrich (2012)*, for the period 2005-06 to 2016-17 (latest data available). The first is the simplest measure of structural change (SC), the Norm of Absolute Values (NAV) and the second index is the Modified Lilien index (MLI). Both the indices are discussed below:

Norm of Absolute Values (NAV)

The Norm of Absolute Values (NAV) index is defined as:

$$NAV = 0.5 \sum_{i=1}^{n} I\, Xit - Xis\, I \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2.1)$$

Where, the terms x_{it} and x_{is} are the market share of i^{th} line of business at points of time t and s. The absolute (modulus) values of the difference of the two is taken and summed over all lines of business. It varies from 0 to 100 (if shares are expressed in per cent) or from 0 to 1 (if shares are expressed in proportions). The amount of structural change equals exactly the share of the movements of the sectors as a percentage of the whole economy. If the structure remains unchanged the indicator is equal to zero and if all sectors change at its most, which means the whole industry has a total change then the index is equal to unity. One of the disadvantages of NAV is that there might be similar impact due to huge movements in a few components and due to light movement in many components.

The table 2.16 provides the NAV for various components of non-life business. The NAV values indicate that the structure of the non-life insurance is changed but slowly over the years. Among the business segments, the NAV value for health insurance indicates a sharp rising, followed

by fire and motor insurance. While the marine insurance business segments structure has not changed significantly.

Table 2.16: Norm of Absolute Values (NAV) Index for the period 2005-06 to 2016-17												
	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Fire	0.00	0.97	3.05	3.69	3.68	3.92	4.14	3.98	4.06	4.08	4.74	5.55
Marine	0.00	0.11	0.08	0.07	0.02	0.20	0.44	0.75	0.91	1.21	1.61	2.02
Motor	0.00	0.03	1.35	0.52	0.28	0.10	1.47	2.08	2.50	2.62	0.50	1.84
Health	0.00	1.21	3.34	4.58	5.11	6.22	5.68	5.64	6.86	7.23	8.79	8.02
Others	0.00	0.38	1.72	1.47	1.68	2.01	2.58	2.99	4.39	4.56	2.94	1.38
Total	0.00	2.70	9.54	10.33	10.78	12.45	14.31	15.44	18.72	19.71	18.58	18.80
Source: IRDAI												

Modified Lilien Index (MLI)

The Lilien index is an important measure of structural change in a number of fields of economic research. Here, we used Lilien index as a measure of structural change in the Indian non-life insurance industry. It is derived from an axiomatic analysis of structural change indices. The index is defined as:

$$MLI = SQRT\ [\sum Xit * Xis * (Ln\ \frac{Xit}{Xis})\text{^}2],\ \ t > s \quad \ldots\ldots\ldots (2.2)$$

Where, Xit as the market share of sector *i* at time *t*. The index has to be equal to zero if the sectoral composition is unchanged.

As the NAV index values not so much different, we have tested with the next method, i.e., Modified Lilien Index (MLI). The computed values of MLI are provided in the table 2.17. The MLI values indicate that fire and health insurance business segments have influenced the structure of Indian non-life insurance significantly in the study period.

Table 2.17: Modified Lilien Index (MLI) for the period 2005-06 to 2016-17												
	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Fire	0.0	3.8	36.8	53.4	53.1	59.9	66.4	61.8	64.0	64.8	86.1	114.9
Marine	0.0	0.1	0.0	0.0	0.0	0.2	0.8	2.2	2.1	5.7	9.9	14.9
Motor	0.0	0.0	7.3	1.1	0.3	0.0	8.7	17.3	17.6	27.5	1.0	13.5
Health	0.0	5.8	43.8	81.2	100.6	147.7	123.8	122.1	135.5	197.1	286.4	240.4
Others	0.0	0.6	11.7	8.6	11.3	16.1	26.6	35.4	29.0	81.2	34.3	7.6
Total	0.0	3.2	10.0	12.0	12.9	15.0	15.0	15.5	15.8	19.4	20.4	19.8
Source: IRDAI												

Thus, both the indices indicate the same trend that the structure of the Indian non-life insurance industry has changed in respect of health insurance business during the study period (2005-06 to 206-17), which is mainly due to the high growth of health insurance business in India. As health insurance in India is largely demand-driven, the segment may continue to dictate the structure of Indian non-life insurance industry in future also.

2.5 Micro Insurance in India

Micro insurance regulations issued by the IRDAI in 2005 have provided a fillip in propagating micro insurance as a conceptual issue. With the positive and facilitative approach adopted under the micro insurance regulations, it is expected that all insurance companies would come out with a progressive business approach and carry forward the spirit of regulations thereby extending insurance penetration to all segments of society.

The number of micro insurance agents at the end of March 2017 stood at 35200; of which 19301 agents pertained to the LIC and the remaining represented the private sector life insurers. Out of the total 35,200 MI agents of Life insurance industry, NGOs form 21.7%, Self Help Groups (SHGs) form 1.1%, Micro Finance Institutions (MFIs) form 1.0%, Business Correspondents (BCs) form 0.2% and other MI Agents form 75.9%. 28 micro insurance products of 17 life insurers were available as at 31st March, 2017. Of these 28 products, 18 were Individual products and the remaining 10 were Group products. Total number of general insurance policies issued by Micro Insurance Agents in the year 2016-17 is 35,065.

2.6 Evolution and Progress of Postal Life Insurance in India

2.6.1 Postal Life Insurance (PLI)

Postal life insurance was introduced on 01 February 1884 with the express approval of the Secretary of State (for India) to Her Majesty, the Queen Empress of India. It was essentially a scheme of State Insurance mooted by the then Director General of Post Offices, Mr. F.R. Hogg in 1881 as a welfare scheme for the benefit of Postal Employees and was later extended to the employees of Telegraph Department in 1888. In 1894, PLI extended insurance cover to female employees of P&T Department at a time when no other insurance company covered female lives. It is the oldest Life insurer in this country.

Initially, the upper limit of life insurance was only Rs 4000/- which has now been increased to Rs 10 lakhs for all schemes combined - Endowment Assurance and Whole Life Assurance. Over the years, PLI has grown substantially from a few hundred policies in 1884 to 64 lakh policies as on 31 March 2015. It now covers employees of Central and State Governments,

Central and State Public Sector Undertakings, Universities, Government aided Educational institutions, Nationalized Banks, Local bodies etc. PLI also extends the facility of insurance to the officers and staff of the Defence services and Para-Military forces. Apart from single insurance policies, Postal Life Insurance also manages a Group Insurance scheme for the Extra Departmental Employees (Gramin Dak Sevaks) of the Department of Posts.

Table 2.18: POSTAL LIFE INSURANCE (PLI) (Amount in Rs Crore)

Year	No of Policies in Force	% Growth	Premium income	% Growth	Sum Assured Amount	% Growth	Corpus of Fund	% Growth
2001-02	20,08,575	..	502	13.2	11,870	..	5,090	..
2002-03	20,98,577	4.5	591	17.7	13,677	15.2	5,797	13.9
2003-04	22,08,683	5.2	698	18.2	15,918	16.4	6,620	14.2
2004-05	28,57,797	29.4	905	29.6	18,747	17.8	7,678	16.0
2005-06	30,98,248	8.4	1,079	19.2	22,952	22.4	8,934	16.4
2006-07	32,97,825	6.4	1,212	12.3	26,753	16.6	10,343	15.8
2007-08	35,50,084	7.7	1,480	22.2	31,469	17.6	12,082	16.8
2008-09	38,41,539	8.2	1,861	25.7	38,403	22.0	14,153	17.1
2009-10	42,83,302	11.5	2,413	29.7	51,210	33.3	16,656	17.7
2010-11	46,86,245	9.4	3,003	24.5	64,078	25.1	19,802	18.9
2011-12	50,06,060	6.8	3,681	22.6	76,591	19.5	23,011	16.2
2012-13	52,19,326	4.3	4,557	23.8	88,896	16.1	28,190	22.5
2013-14	54,06,093	3.6	5,352	17.4	1,02,276	15.1	32,716	16.1
2014-15	64,61,413	19.5	-	-	1,30,745	27.83	37,571	14.8

Source: Directorate, PLI, Department of Post

However, Postal Life Insurance is not for investors who are looking for new-age products like Unit-Linked Insurance Policies (ULIPs) and pension plans. The postal department offers six plain vanilla plans, i.e., Suraksha (Whole Life Assurance), Santosh (Endowment Assurance), Suvidha (convertible whole life insurance), Sumangal (Anticipated Endowment Assurance), Yugal Suraksha (joint endowment) and Children's Policy. These policies just offer death cover while LIC and other insurance companies offer accidental death benefit with extra premiums.

2.6.2 Rural Postal Life Insurance (RPLI)

Rural Postal Life Insurance came into being as a sequel to the recommendations of the Malhotra Committee for Reforms in the Insurance Sector. The committee had observed that in 1993,

only 22% of the insurable population in this country have been insured; life insurance funds accounted for only 10% of the gross household savings. The committee also observed that the 'Rural Branch Postmasters who enjoy a position of trust in the community have the capacity to canvass life insurance business within their respective areas'.

The Government accepted the recommendations of Malhotra Committee and allowed Postal Life Insurance to extend its coverage to the rural areas to transact life insurance business with effect from 24 March 1995, mainly because of the vast network of Post Offices in the rural areas and low cost of operations. The prime objective of the scheme is to provide insurance cover to the rural public in general and to benefit weaker sections and women workers of rural areas in particular, and also to spread insurance awareness among the rural population. The growth of the RPLI is satisfactory over the years, as shown in the table 1.13.

Table 2.19: RURAL POSTAL LIFE INSURANCE (RPLI) (Amount in Rs Crore)

Year	No of Policies in Force	% Growth	Premium income	% Growth	Sum Assured	% Growth	Corpus of Fund	% Growth
2001-02	11,33,013	..	95	39.8	4,404	..	341	..
2002-03	17,95,070	58.4	171	80.9	7,465	69.5	511	49.7
2003-04	26,66,485	48.5	245	43.2	12,385	65.9	756	48.1
2004-05	37,96,773	42.4	38,087	55.3	18,896	52.6	1,128	49.1
2005-06	47,02,776	23.9	475	24.7	25,230	33.5	1,625	44.1
2006-07	52,46,673	11.6	601	26.5	33,866	34.2	2,285	40.6
2007-08	61,67,928	17.6	665	10.6	41,846	23.6	3,004	31.5
2008-09	73,56,446	19.3	879	32.3	53,072	26.8	3,994	33.0
2009-10	99,25,103	34.9	1,357	54.4	59,573	12.2	5,525	38.3
2010-11	1,22,03,345	23.0	1,111	-18.1	66,132	11.0	6,608	19.6
2011-12	1,35,47,355	11.0	1,559	40.3	69,754	5.5	9,141	38.3
2012-13	1,46,64,650	8.3	1,703	9.3	75,154	7.7	11,388	24.6
2013-14	1,50,14,314	2.4	1,960	15.1	79,466	5.7	13,352	17.5
2014-15	2,35,14,055	56.6	-	-	1,05,204	132.4	14,968	112.1

Source: Directorate, PLI, Department of Post

2.7 Challenges & Opportunities

The Indian insurance industry is facing now a wave of structural change generated by shifting macroeconomic and demographic conditions, demand for new products and services, and increasing regulatory pressure, which may put a number of insurers to confront new and far-

reaching challenges to remain successful in their business operations. However, the emerging economic environment also presents exciting opportunities for those insurers, who aspire to recognize and are able to adapt it. The key to success for the companies that are committed to grab a greater pie in the Indian insurance market will be a greater focus on (i) achieving cost efficiency, (ii) data analytics and (iii) product innovation with a lower premium, which is needed to create growth and competitive advantage.

2.7.1 Challenges

In terms of regulation, the Indian insurance industry may be a challenge for the Government and IRDAI, as there are 62 insurers, each represented by thousands of agents, brokers, and intermediaries. On one hand, the regulator needs to promote competition in the market to bring efficiency, which will lower the premium price and on the other hand, to safeguard the interests of the policy holders, regulation is needed. So, proper care needs to be taken, so that excess control and regulation do not affect the growth and expansion of the insurers. There is a need for a certain degree of autonomy in the functioning of insurance companies, which will give more space to the companies to carry out their business properly. To regulate the sector, IRDAI has given its regulatory reach and qualified personnel are eminently equipped to embark on the task of overseeing the sector.

At present, the insurance companies are facing difficulty in building their brand image and carving a niche in the minds of the public or prospective customers, particularly in life insurance business, as life insurance is deemed to be a push market and there is no demand for the products. So, to convince the customers who are comparatively not well informed about the intangible benefits of insurance is indeed an enormous task for the insurance companies. The next major difficulty faced by the insurance companies relates to setting up infrastructure and reaching out to as many areas as possible. Further, there is a need for innovating new products to meet the changing demands of the people. Managing the funds in a fickle scenario to remain profitable in business for a longer period of time is another challenge.

2.7.2 Opportunities

The population in India is indeed vast and the existing dominant player LIC has managed to cover only 5% of the total population of the country. Further, in India, the ratio of assets of insurance companies to those of banks is only 3% while the ratio in US is 10%. This serves as another indicator of the potential that the industry can go forward to tap the vast market available in the country.

Going forward, the IRDAI will play a key role in laying down the ground rules and paving the way for the sector's growth and development. In addition, the sector will be next only to the banking industry in creating employment opportunities in the country. Further, a number of web portals and financial magazines are exclusively devoted to insurance and also a few training institutes are being set up to create awareness of insurance in the country. Many of the universities and management institutes have already introduced courses on insurance to educate the technicalities of the insurance business, which will help students to make a career in insurance. Additionally, the Indian pension market is at a nascent stage and expected to witness a sea change in the coming years with a huge expansion in terms of premium and number of policies.

Finally, insurance, especially health insurance, is likely to get a boost from the Government with a separate tax deduction under 80C, which ultimately will push improvement in the quality of medical treatment and facilities in the country. Recently, a new trend is emerging in home insurance. As Government is targeting house for all by 2022, so this business segment will definitely get a boost in the years ahead.

2.8 Concluding Remarks

The Indian insurance industry has always been an attractive market for global insurers to expand their business, mainly due to the demographic profile and untapped business opportunities. The FDI limit hike in 2015 will definitely attract the global insurer to tap the Indian market and is expected to bring in the much required foreign capital to meet the needs of the industry. This may help the insurers to expand their footprint to support Government's objective of financial inclusion in the country.

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Annexure 2.1: List Life Insurance Companies

LIFE INSURANCE COMPANIES OPERATING IN INDIA*						
Sl. No.	**Insurers**	**Foreign Partners**	**Year of Operation**	**Head Office**	**Equity Capital (Rs Crore)**	**FDI (%)**
1	Aegon Religare Life Insurance Company Ltd.	Aegon ,Netherlands	2008-09	Mumbai	1430	49.0
2	Aviva Life Insurance Company Ltd.	Aviva International Holdings Ltd., UK	2002-03	Gurgaon	2005	49.0
3	Bajaj Allianz Life Insurance Company Ltd.	Allianz, Germany	2001-02	Pune	151	26.0
4	Bharti AXA Life Insurance Company Ltd.	AXA Holdings, France	2006-07	Mumbai	2406	49.0
5	Birla Sunlife Insurance Company Ltd.	Sun Life, Canada	2000-01	Mumbai	1901	49.0
6	Canara HSBC OBC Life Insurance Company Ltd.	HSBC, UK	2008-09	Haryana	950	26.0
7	DLF Pramerica Life Insurance Company Ltd.	Prudential of America, USA	2008-09	Gurgaon	374	49.0
8	Edelweiss Tokio Life Insurance Company Ltd.	Tokio Marine Holding Inc,Japan	2011-12	Mumbai	262	49.0
9	Exide Life Insurance Company Ltd	-	2001-02	Bengaluru	1750	0.0
10	Future Generali Life Insurance Company Ltd.	Generali, Italy	2007-08	Mumbai	1507	25.5
11	HDFC Standard Life Insurance Company Ltd.	Standard Life Assurance, UK	2000-01	Mumbai	1998	34.9
12	ICICI Prudential Life Insurance Company Ltd.	Prudential Plc, UK	2000-01	Mumbai	1435	25.8
13	IDBI Federal Life Insurance Company Ltd.	Ageas, Europe	2007-08	Mumbai	800	26.0
14	IndiaFirst Life Insurance Company Ltd.	Legal & General Middle East Limited, UK	2009-10	Mumbai	625	26.0
15	Kotak Mahindra OM Life Insurance Company Ltd.	Old Mutual, South Africa	2001-02	Mumbai	510	26.0
16	Life Insurance Corporation of India	---	1956-57	Mumbai	100	0.0
17	MaxLife Insurance Company Ltd.	New York Life, USA	2000-01	Gurgaon	1919	25.0
18	PNB Metlife India Insurance Company Ltd.	Metlife International Holdings Ltd., USA	2001-02	Bengaluru	2013	26.0
19	Reliance Nippon Insurance Company Ltd.	---	2001-02	Mumbai	1196	49.0
20	Sahara India Life Insurance Company Ltd.	---	2004-05	Lucknow	232	0.0
21	SBI Life Insurance Company Ltd.	BNP Paribas Assurance SA, France	2001-02	Mumbai	1000	29.9
22	Shriram Life Insurance Company Ltd.	Sanlam, South Africa	2005-06	Hyderabad	179	22.9
23	Star Union Dai-ichi Life Insurance Company Ltd.	Dai-ichi Mutual Life Insurance,Japan	2008-09	Mumbai	259	45.9
24	TATA AIA Life Insurance Company Ltd.	American International Assurance Co., USA	2001-02	Mumbai	1954	49.0
Source: IRDAI * as on March 2017						

Annexure 2.2: List of Non-Life Insurance Companies

NON-LIFE INSURANCE COMPANIES OPERATING IN INDIA*						
Sl. No.	**Insurers**	**Foreign Partners**	**Year of Operation**	**Head Office**	**Equity Capital (Rs Crore)**	**FDI (%)**
PUBLIC SECTOR						
1	National Insurance Company Ltd.	---	1906-07	Kolkata	100	0
2	New India Assurance Company Ltd.	---	1919-20	Mumbai	200	0
3	Oriental Insurance Company Ltd.	---	1947-48	New Delhi	200	0
4	United India Insurance Company Ltd.	---	1919-20	Chennai	150	0
PRIVATE SECTOR						
5	Bajaj Allianz General Insurance Company Ltd.	Allianz, Germany	2001-02	Pune	110	26.0
6	Bharti AXA General Insurance Company Ltd.	AXA Holdings, France	2008-09	Bangalore	1621	49.0
7	Cholamandalam MS General Insurance Company Ltd.	Mitsui Sumitomo, Japan	2002-03	Chennai	299	40.0
8	Future Generali India Insurance Company Ltd.	Participatie Maatschapij Graafsschap Holland NV, Netherlands ("Generali")	2007-08	Mumbai	810	25.5
9	HDFC ERGO General Insurance Company Ltd.	ERGO, Germany	2002-03	Mumbai	600	48.7
10	ICICI Lombard General Insurance Company Ltd.	Fairfax Financial Holding Ltd, Canada	2001-02	Mumbai	451	34.3
11	IFFCO Tokio General Insurance Company Ltd.	Tokio Marine Asia Pte. Ltd, Japan	2000-01	Gurgaon	269	26.0
12	Kotak Mahindra General Insurance Co. Ltd	-	2014-15	Mumbai	135	0.0
13	Liberty Videocon General Insurance Company Ltd.	Liberty City State Holdings Pte Ltd.	2012-13	Mumbai	984	43.5
14	Magma HDI General Insurance Company Ltd.	HDI-Gerling International Holding AG, Germany	2012-13	Kolkata	113	25.6
15	Raheja QBE General Insurance Company Ltd.	QBE, Australia	2008-09	Mumbai	207	49.0
16	Reliance General Insurance Company Ltd.	---	2000-01	Mumbai	126	0.0
17	Royal Sundaram Alliance Insurance Company Ltd.	Royal Sun Alliance, UK	2000-01	Chennai	331	0.0
18	SBI General Insurance Company Ltd.	Insurance Australia Group Limited (IAG), Australia	2009-10	Mumbai	215	26.0
19	Shriram General Insurance Company Ltd.	Sanlam, South Africa	2008-09	Jaipur	259	23.0
20	TATA AIG General Insurance Company Ltd.	American International Group (AIG), USA	2000-01	Mumbai	632	26.0
21	Universal Sompo General Insurance Company Ltd.	Sompo, Japan	2007-08	Mumbai	350	26.0
HEALTH INSURERS						
22	Aditya Birla Health Insurance Co. Limited	MMI Strategic Investments (Pty) Ltd, SA	2016-17	Mumbai	100	49.0
23	Apollo Munich Health Insurance Company Ltd.	Munich Re	2007-08	Gurgaon	357	48.7
24	Cigna TTK Health Insurance Company Ltd.	Cigna Corporation, US	2014-15	Mumbai	251	26.0
25	Max BUPA Health Insurance Company Ltd.	Bupa Finance PLC, UK	2009-10	New Delhi	926	49.0
26	Religare Health Insurance Company Ltd.	---	2012-13	New Delhi	525	0.0
27	Star Health & Allied Insurance Company Ltd.	Individual Promoters, UAE	2006-07	Chennai	456	36.5
SPECIALISED INSURERS						
28	Agriculture Insurance Company of India Ltd.	---	2003-04	New Delhi	200	0
29	Export Credit Guarantee Corporation of India Ltd.	---	1957-58	Mumbai	1450	0
REINSURER						
30	General Insurance Corporation of India	---	22-11-1972	Mumbai	430	0
31	Hannover Re	Branches of Foreign Reinsurer	2016-17		136	
32	Lloyd's		2016-17		100	
33	Munich Re		2016-17		281	
34	RGA		2016-17		100	
35	SCOR SE		2016-17		294	
36	Swiss Re		2016-17		100	
37	XL SE		2016-17		108	

Source: IRDAI * as on March 2017

Chapter III
Jan Dhan to Jan Suraksha: Review of Existing Policies & Assessment

3.1 Introduction

Policies towards financial inclusion have received global attention including in the developed financial markets. There has always been concern about the excluded people who are out of the formal banking/financial system. To provide banking facilities to all the citizens in India, the banking fraternity has accepted the 'financial inclusion' agenda taken by the Government of India in 2005-06, when RBI in its Annual Policy Statement of 2005-06, urged the banking industry to change their exclusionary practices and bring vast unbanked sections within their fold. Apart from RBI, efforts are being made by the other policy-making institutions like the NABARD, SIDBI, IRDAI, and PFRDA in terms of suitable regulations and guidelines for strengthening financial inclusion. While, the debate in the public domain and anecdotal evidence seems to question the outcomes and impact of such inclusive policies.

The results continue to disappoint, as the Census 2011 indicates that there was only 14.48 crore (58.7%) households out of 24.67 crore households in the country, that had access to banking services. Out of which, rural inclusion is only at 9.14 crore (54.46%) from 16.78 crore rural households but in urban areas, it is 5.34 crore (67.68%) households out of the 7.89 crore urban households. However, after the Census 2011, Government has taken a number of policy initiatives to bring more and more number of people into the financial channels through almost all the financial business segments, including banking, insurance, pension and FinTech etc. With this, it is believed that almost all the unbanked households have been covered by opening at least one bank account in each and every households in the country.

In this Chapter, we have reviewed all the recent policy initiatives taken by the Government (say PMJDY, Jan Suraksha, and PMFBY) to increase the banking & insurance penetration in the country. We also assessed the implications of these schemes on insurance consumption of the customers.

3.2 PMJDY: *New Course for Insurance Inclusion*

To universalize access to financial services, on 28 August 2014, the Prime Minister launched a nation-wide new programme, namely 'Pradhan Mantri Jan Dhan Yojana (PMJDY)', which aimed to cover all the 7.5 crore unbanked households in the country with at least one account

under this scheme by 26th January 2015. This ambitious programme targeted the poor who do not have access to any type of financial services, with an objective that easy access to the banking system (and freedom from scam-artists and moneylenders) can materially lift India's economic prosperity. Further, Government has clarified that the benefits would also be extended to the existing account holders subject to submission of an application to the concerned bank branch. The scheme comprises the following six pillars:

a) **Universal access to banking facilities:** Mapping of each district into Sub Service Area (SSA) catering to 1000-1500 households in a manner that every habitation has access to banking services within a reasonable distance say 5 km by 14th August 2015. Coverage of parts of J&K, Himachal Pradesh, Uttarakhand, North East and the Left Wing Extremism affected districts which have telecom connectivity and infrastructure constraints would spill over to the Phase II of the program (15th August 2015 to 15th August 2018).

b) **Providing Basic Banking Accounts with overdraft facility and RuPay Debit card to all households:** The effort was to cover all uncovered households with banking facilities, by opening basic bank accounts with a RuPay Debit Card. Facility of an overdraft to every basic banking account holder would be considered after satisfactory operation/credit history of six months.

c) **Financial Literacy Programme:** Financial literacy is an integral part of the Mission in order to let the beneficiaries make the best use of the financial services being made available to them.

d) **Creation of Credit Guarantee Fund:** Creation of a Credit Guarantee Fund to cover the defaults in overdraft accounts.

e) **Micro - Insurance:** To provide micro-insurance to all willing and eligible persons by 14th August 2018, and then on an ongoing basis.

f) **Unorganized sector Pension schemes like Swavalamban:** By 14 August 2018 and then on an ongoing basis.

For the proper implementation and monitoring purposes, the PMJDY is planned to implement in two phases:

First Phase (15th August 2014 – 26 January 2015), aims to:

a) Universal access to banking facilities

b) Financial Literacy Programme and

c) Providing Basic Banking Accounts with an overdraft facility of Rs. 5000 (one person in a family, preferably women) to Aadhaar enabled accounts after satisfactory operation for 6 months, RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and Rs. 30,000/- life insurance cover. The issuance of KCC RuPay Kissan card is also proposed to cover under this plan.

However, the ***Second Phase (26 January 2015 upto15th August 2018),*** will address the issues like

a) Creation of Credit Guarantee Fund for coverage of defaults in overdraft A/Cs
b) Micro Insurance and
c) Unorganized sector Pension schemes.

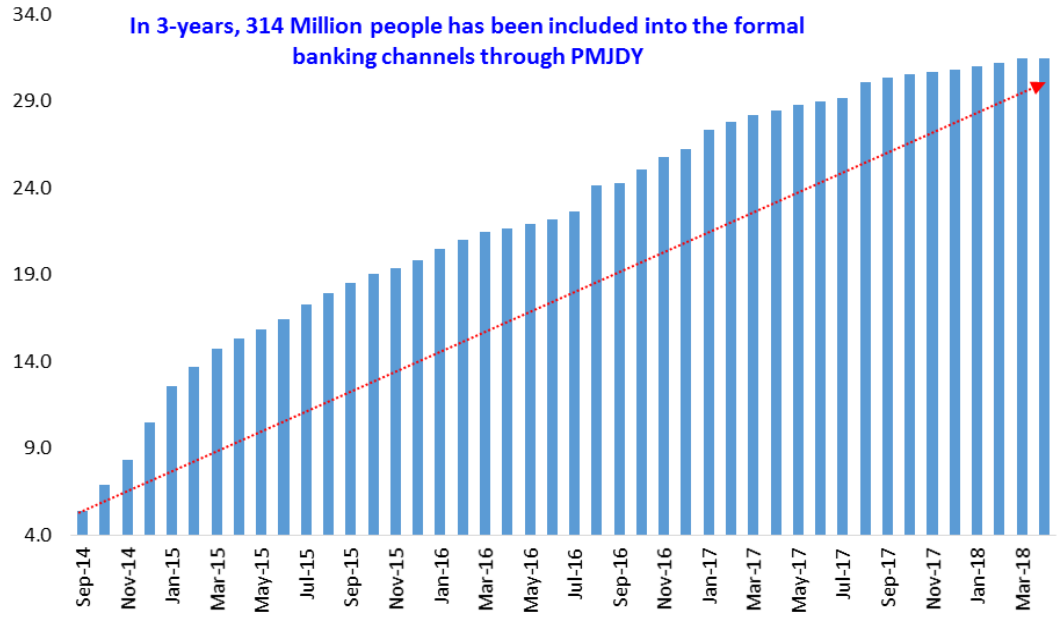
In addition, in this phase coverage of households in hilly, tribal and difficult areas would be carried out. Moreover, this phase would focus on coverage of remaining adults in the households and students.

3.2.1 Progress & Performance

In PMJDY, the new initiative is that households are being targeted instead of villages as earlier. Moreover, both rural and urban areas are being covered under this scheme, as against only rural areas targeted earlier and it is also planned to pursue digital financial inclusion in the country by issuing debit cards and mobile banking to the customers. However, compared to RBI's 'Basic Savings Bank Account', this scheme is not new but has added some top-ups like life insurance coverage, pension etc. Now, Government proposes to channel all the benefits (from Centre/State/Local body) to the beneficiaries to such accounts and pushing the Direct Benefits Transfer (DBT) scheme. The Government has included 423 from 56 Central Ministries into the DBT scheme.

As of 04 April 2018, there is 31.4 crore individuals have been linked to Pradhan Mantri Jan Dhan Yojana (PMJDY) with Rs 79,012 crore deposited in their accounts. Out of which, 23.66 crore accounts are also being provided with RuPay debit cards. Out of the 31.4 crore accounts, public sector banks (PSBs) has opened 25.4 crore accounts, RRBs has opened 5.1 crore accounts, whereas private sector banks have opened only 0.9 crore accounts. ***This indicates that PSBs have accepted the responsibility & have fulfilled their promises in a record time.*** Though, initially, a number of a/cs opened under PMJDY remained unused. After the transfer of subsidy through DBT/DBTL into accounts, there has been a significant improvement in the transaction in these accounts.

Figure 3.1: Trend and Progress of PMJDY Accounts



Source: PMJDY Website

3.2.2 Issues in PMJDY

Though this scheme has been successfully established and is in the 3rd year now, a number of issues still remained unresolved. Some of them are highlighted below:

- ***Insurance Premium*:** The issue is that who is going to foot the bills for the insurance premium and other costs. For the accident insurance, the National Payments Corporation of India (NPCI) has agreed to pay the premium, from the revenue that will be generated from transactions of RuPay cards. In the meanwhile, Finance ministry has finalised that LIC will provide life cover by keeping aside Rs 50 crore from the Social Security Fund. It is estimated that if all the targeted 31 crore newly opened PMJDY a/cs are covered under insurance, then the total premiums for the life insurance coverage would be around Rs. 300 crore. However, in my view, there is a need for proper price discovery through a tender process, rather than giving it to LIC only. Further, if all the targeted 7.5 crore households are covered through insurance, then the insurance inclusion would have reached the level of 14-15%, but it is languishing at 3.55 in 2016-17. This indicates that all the PMJDY accounts have not been covered by any type of insurance.

- ***Overdraft (OD) Facility & Insurance:*** In line with RBI's 'Basic Savings Accounts', PMJDY has also mandated to provide Rs. 5000/- overdraft limit after satisfactory operation of the account for 6-months. This is not new for the banks but as of end-March 2017, only 1.7% BSBDA accounts (refer RBI Annual Report 2016-17, Table IV.4, PP 83) has availed

OD facility and the average loan amount is Rs 1889 in FY17, which was Rs 392 in FY13 (average in the last 5-years is Rs. 896). So, there is a need to educate the customers, so that they can avail the OD facility in their account.

There are a number of studies that have been concluded about the success of PMJDY scheme. We can say, there is much to learn from successes, as there is to learn from failures. It is a rare case of a popular policy that delivers political and long-term economic benefits. The programme has made significant headway towards genuine financial inclusion. However, on the flipside, it is believed that people used PMJDY accounts to make black money into white, during the demonetisation period.

3.3 Jan Suraksha: An Assessment

In addition to PMJDY, the Prime Minister launched three ambitious new social security schemes under *Jan Suraksha* initiative on 09 May 2015, which were announced by the Finance Minister in the Union Budget 2015-16 speech. Jan Suraksha schemes aim to insure masses at a nominal price to push up the insurance and social security inclusion in the country, which has been languishing at a much lower level of around 4% compared with the world average of 6.3%. The schemes targeted especially the poor and the underprivileged. The Schemes include: (i) Pradhan Mantri Suraksha Bima Yojana (PMSBY) covering an accidental insurance of Rs 2 lakh at a premium of just Rs 12 per year i.e. Re 1 per month; (ii) Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) covers both natural and accidental death risk of Rs 2 lakh. The premium will be Rs 330 per year, or less than Re 1 per day, for the age group of 18-50 Years; and (iii) Atal Pension Yojana (APY) with a guaranteed minimum monthly pension for the subscribers ranging between Rs 1000 and Rs 5000 a month at the age of 60 years, depending on their contributions.

All these schemes are for bank-account holders and will have direct credit and debit facility. The cover period of Jan Suraksha scheme for those subscribing is 1st June of each year to 31st May of the subsequent year. The PMJJBY scheme is offered/administered through LIC and other Indian private Life Insurance companies, while PMJSY is offered/administered through Public Sector General Insurance Companies (PSGICs) and other private General Insurance companies and APY is administered by the Pension Fund Regulatory and Development Authority (PFRDA) through architecture of National Pension System (NPS).

The Government of India is extremely concerned about the old age income security of the working poor and is focused on encouraging and enabling them to join the National Pension

System (NPS). To address the longevity risks among the workers in unorganised sector and to encourage the workers in unorganised sector to voluntarily save for their retirement, who constitute 88% of the total labour force of 47.29 crore as per the 66th Round of NSSO Survey of 2011-12, but do not have any formal pension provision, the Government had started the Swavalamban Scheme in 2010-11. However, coverage under Swavalamban Scheme is inadequate mainly due to lack of guaranteed pension benefits at the age of 60. So, Government announced the introduction of universal social security schemes under Atal Pension Yojana (APY), which will provide a defined pension, depending on the contribution, and its period. The APY will be focused on all citizens in the unorganised sector, who join the National Pension System (NPS) administered by the Pension Fund Regulatory and Development Authority (PFRDA). Under the APY, the subscribers would receive one of the following pension amounts: a fixed minimum pension of Rs. 1000 per month, Rs. 2000 per month, Rs. 3000 per month, Rs. 4000 per month, Rs. 5000 per month, at the age of 60 years, depending on their contributions, which itself would be based on the age of joining the APY. The minimum age of joining APY is 18 years and maximum age is 40 years. Therefore, the minimum period of contribution by any subscriber under APY would be 20 years or more. The benefit of fixed minimum pension would be guaranteed by the Government. The operating structure of these schemes are:

Table 3.1: Allocation of Premium Paid

Schemes	**PMJJBY**	**PMSBY**	**APY**
Premium per Member (Rs)	330	12	As per PFRDA Guidelines
Insurance Premium to Insurance company	289	10	
Reimbursement of Expenses to BC/ Micro/Corporate/Agent	30	1	
Reimbursement of Admin expenses to participating Bank	11	1	

Source: Jan Suraksha Policy Documents

3.3.1 Progress & Performance

In line with PMJDY, Jan Suraksha schemes also got a very good response from the people and around 25 crores of insurance policies have been issued so far. The Jan Suraksha insurance policy, i.e., PMSBY is the cheapest mode of getting covered against fatal accidents. The progress made by the 3 Jan Suraksha schemes are as under:

Table 3.2: Progress of Jan Suraksha Schemes*			
	PMJJBY	**PMSBY**	**APY**
Total Number of Policies (in crore)	5.32	13.47	5.8
Premium (Rs)	330.0	12.0	577.0
Total Premium Collected	1755	162	155
Total no. of claims disbursed	88,530	16,164	
Source: Jan Suraksha Website *26 Mar'18			

We made an analysis by comparing other insurance companies' similar policies with Jan Suraksha. The table 3.3 indicates that LIC's online term plan - LIC eTerm Plan - is costing Rs 5,244 and Rs 6,521 for a cover of Rs 40 lakhs to a couple of individuals, aged 18 year and 25 years respectively. If we divide Rs 40 lakhs by 20, we will get a cover of Rs 2 lakhs and if divide Rs 5,244 and Rs 6,521 by 20, we will get Rs 262 and Rs 326 respectively. Thus, Rs 262 and Rs 326 are the premiums we need to pay to LIC per Rs 2 lakhs of life cover at the age of 18 years and 25 years respectively. As we become older, say more than 25 years of age, LIC starts charging me more for the same life cover of Rs 40 lakhs. At the age of 30 year, LIC will charge a premium of Rs 379 for a cover of Rs 2 lakhs and at 50 years age, the premium goes up very sharply to Rs 1,108 for the same life cover.

Table 3.3: Premium Comparison of PMJJBY with Other Term Insurance by Life Insurers in India										
Age	**PMJJBY Premium**	**Life Cover (Except PMJJBY)**	**LIC eTerm Premium**	**LIC Premium/ 2Lakh SA**	**SBI eShield Premium**	**SBI Premium/2 lakh SA**	**Kotak e-Term Premium**	**Kotak Premium/2 lakh SA**	**Max Life e-Term Plan**	**Max Life Premium/ 2 lakh SA**
18	330	40 lakhs	5244	262	4104	205	3478	174	5290	265
25	330	40 lakhs	6521	326	5479	274	374	186	5518	276
30	330	40 lakhs	7570	379	6230	369	4062	203	5791	290
35	330	40 lakhs	9120	456	7610	381	4893	245	6703	335
40	330	40 lakhs	11309	565	9259	463	6612	331	8390	420
45	330	40 lakhs	14455	723	11569	578	8983	449	11309	565
50	330	40 lakhs	22162	1108	15070	754	13298	665	16325	816
Note: All figures in the table above are in Rupees, except Age										

Similar is the case with SBI Life's online term plan, SBI eShield. SBI Life charges even less than what LIC charges for its online term plan. For a cover of Rs 40 lakhs, we need to pay just Rs 4,104 and Rs 5,479 for the age 18 and 25 years old respectively. That is Rs 205 and Rs 274 respectively for a proportionate life cover of Rs 2 lakhs. The Kotak Life Insurance provides the cheapest online term insurance among the four sample companies. Even Max Life Insurance provides cheaper life cover as compared to LIC, but it is costlier than Kotak Life for all age groups and costlier than SBI Life in some extreme age groups and cheaper in some middle age groups.

Generally, the online policy of any company is cheaper than the off-line policy. So, this is not correct to compare both the policies in terms of price/cost. While the 'Jan Suraksha' policies are available in both online and off-line mode. So, we have made a comparison with other insurance company's similar type online policies. From the above analysis, we may conclude that PMJJBY is the cheapest term plan available in the market with an annual premium of Rs 330 for a life cover of Rs 2 lakhs. However, it is not the case for the young person, who can afford to pay higher premiums. In other words, there are some better options available in the market as compared to PMJJBY with proportionately lower premiums and higher sum assured.

3.3.2 Issues Associated with Jan Suraksha

Some of the issues are outlined below:

- Under PMJJBY, the premium would remain same at Rs 330 for a life cover of Rs 2 lakhs for all the subscribers aged between 18 and 50 years and going up to 55 years. We all know that the mortality risk of the age group of 50-55 years is higher than the age group of 18-25 years. So, the younger age group subscribers would be subsidizing older age groups in PMJJBY.
- Low premiums may pose a challenge to effective claim servicing. Claims settlement and post-policy service handling are expected to face issues. The scheme's premium was kept low due to the assumption that there would be large volumes. In 2016-17, the claims-to-premium ratio (loss ratio) for PMJJBY hit an unsustainable level of 121% and is at 170% for PMSBY, as compared to 40-45% claim ratio for usual personal-accident and term life covers. According to sources, the insurers have already made several representations to the Government, asking for a major increase in the premium amount so that the losses from PMSBY don't surge. The companies have written to the Government suggesting that PMSBY need to reprise from Rs 12 to Rs 75-100 while agreeing to give a higher accident

cover of Rs 4 lakh. The government is, however, still in a wait-and-watch mode as it is hopeful that once the pool of policy holders reach a critical mass, claims ratio could climb down. We feel that the trends in the two schemes meant for the poor need to be watched for another couple of years before reprising them.

- Under the APY, the subscriber would get the benefit after the completion of 60-years. Additionally, in my view, there should be an option for taking loans from the corpus in case of medical emergency of the subscribers.

The above analysis indicates that around 25 crore of policies has issued in the country. We believe the low premium of Rs 12 leads to higher uptake for PMSBY against PMJJBY. On the flip side, the study found that there is a lack of sustained focus to expand coverage leading to a dip in enrolment. The scheme also suffers a number of operational issues, which are: (i) acknowledgment receipt for policy, (ii) limited understanding about the schemes among BMs/agents because of the limited capacity building by banks; (iii) no tracking mechanism for the agents and customers to follow enrolments, renewals, and claims. We suggest and believe in corrective measures like expanding Jan Suraksha outreach in next 2-3 years through strong mass media campaigns by banks, clubbing Jan Suraksha with PDS and MGNREGS, putting in place mechanism to track policy, capacity building of BMs as well efficient commission pay-outs. Further, the APY is also a great scheme to provide old age pensions to the subscribers.

3.4 Pradhan Mantri Fasal Bima Yojana (PMFBY)

In India, Agriculture heavily depends on monsoons with 60% of the cropped area being rain-fed. Given the fact that around 75% of rainfall occurs during June-September period, the fate of the Kharif crops depends on the Southwest monsoon. The farming community in India, thus, remain at the mercy of rain-Gods. The distress faced by farmers is clearly evidenced by a large number of farmers' suicide committed during periods of deficit rainfall. According to the Ministry of Agriculture, the total number of suicides committed by farmers for agrarian reasons in the last three years stands at 3313, with four states - Maharashtra, Telangana, Karnataka and Andhra Pradesh - accounting for 3280 of them. So, this alarming number of farmer suicides in India is a burning issue not only in India but also throughout the world. So, there was a need to relook the insurance policies available to the farmers to hedge the risk that arises from the natural calamities, like drought, flood, and irregular rainfall, etc.

Since 1985, there have been crop insurance schemes in the country, when Government had launched a Comprehensive Crop Insurance Scheme (CCIS) in 1985 and continued till 1999.

Again in 1999, Government launched a new scheme, namely National Agricultural Insurance Scheme (NAIS) but there were some loopholes in the scheme. The insurance settlements were handled by the insurance company named, Agriculture Insurance Company of India Ltd (AIC). Under NIAS, the insurance premium rates were 1.5 % to 3.5 % of the total sum assured for food crops like pulses, oilseeds, cereals, etc. But, for commercial crops like cotton and horticultural crops, the actuarial premium rates were charged. Further, the NIAS facilities were given according to the areas where the calamities were frequent and later it was converted into MNIAS i.e. Modified NIAS. The MNIAS was also not a successful project as it was applied in 6 States of India. These schemes were not successful because of several reasons like low awareness, low sum insured amount and slow claim process etc.

Additionally, as per the reports of Home Ministry, in 2015, there was 207 droughts hit districts throughout the country where the farmers suffered great economic losses on crop cultivation. Also, reports show that more than 300 districts were affected by irregular rainfall. This resulted in a large number of farmer suicides as there was no strong insurance plan to get through the losses and start afresh. Over 3000 farmers have chosen the path of suicide in the last three years. Most suicide cases were registered with the state of Maharashtra.

So, to fight back this problem and to provide a good financial support to the farmers of the country, the Government has launched a new crop insurance scheme by rectifying the loopholes from the existing one. On 13 January 2016, Prime Minister launched the new scheme, namely ***Pradhan Mantri Fasal Bima Yojana (PMFBY),*** a uniform 'one nation-one scheme' type crop insurance scheme for the entire country that promised to change the face of the agricultural insurance sector in the country. Under this new crop insurance plan, the premium rates will be discounted from the existing rates for all types of the crop like Kharif crops, Rabi crops, horticulture crops and commercial crops. For PMFBY, the premium is 2% of the sum insured for Kharif season crops and 1.5% for Rabi season crops. The rates are also applicable for oilseeds. The premium rates for commercial crops like cotton and other horticultural crops will be 5% of the insurance sum assured. The Government has also stressed on the use of technology to provide a strong insurance scheme to farmers and make the process efficient and fast. The insurance plan is handled by AIC and the entire insurance process, right from joining of farmers to disbursement of claim is to be made electronically to make it a fraud-free and effective scheme. The insurance burden will be collectively taken by the centre as well as State Governments. A total of Rs 17,600 crore has been approved by the cabinet, for the implementation of the scheme.

3.4.1 Issues in Crop Insurance under PMFBY

In FY17, the total premium collections under PMFBY was Rs 22,337 crore for a sum assured of Rs 2,02,551 crore, covering nearly 57 million farmers and about 55 million hectares. While the claims made by farmers was about Rs 13,500 crore. In our primary survey, we find some of the suggestion for better management of crop insurance. Some of these are outlined below:

a) ***Coverage of crops:*** PMFBY cover mainly cover 3 type of crops, namely food crops (cereals, Millets, & Pulses), Oilseeds, annual commercial/horticulture crops. These crops cover only 30% of the total crop loans given by banks. So, we expect Government should cover all types of crops under PMFBY, which will help banks to manage the risks.

b) ***Timely Notification:*** As per practice, States notify the T&C in August for Kharif Crops and in December for Rabi Crops. We expect Government should notify the scheme before the start of the sowing season, i.e. in Mar/Apr for Kharif and Sep/Oct for Rabi crops.

c) ***Timely and Centralised Payment of Claims:*** Usually, claims payments are made with a lag of around 1 year. This has made a number of A/Cs to NPA and farmers are also not able to get any funds for the next sowing session. We suggest Government should initiate the payment through DBT and made the payment before the next crop cycle starts.

d) ***Transparent Crop Cutting Experiment (CCE):*** There is a need of use of technology like remote sensing, drone etc, to estimate the yield of losses, without any discrimination, as a number of real distressed farmers are not getting the benefits of insurance.

e) ***Need to Increase Awareness:*** A survey by ASSOCHAM-Skymet Weather joint study (2016) reveals that at the all-India level, only 19% of farmer reported ever having insured their crops. A very large proportion of 81% was found to be unaware of the practice of crop insurance. Of the uninsured, 46% were found to be aware but not interested while 24% said that the facility was not available to them. So, there is a need to increase the awareness about crop insurance to all the farmers.

3.4.2 Issues Relating to Input Subsidy

In addition to the above suggestion, some banker has a view about the input subsidy and tenant farmers. The suggestions made by bankers are as follows:

a) ***Provision of Input Subsidy to Tenant Farmer:*** Around 70% of the farmland is being cultivated by tenant farmers. They are not getting any benefit, as they not the owner of the land. The Government in the budget introduced the 'Land Lease Certificate' for the

tenant farmer. This will help the tenant farmer to get all the benefits available to the landowner. There is also a need to protect rights of the landlord and incentivize him to enable better registration of tenant farmer. One of the main reasons for lack of registration is the fear of landlords that they will lose control. This is one of the reasons why only 30% of Agri loans are covered by banks as tenant farmers can't produce land documents. This has remained a big gap in the system so it needs to be addressed by all stakeholders.

b) ***Market Determined Price for the Input Subsidy:*** The amount of input subsidy given for seeds is much lower than the market rates. So, we expect Government should give the subsidy based on the market rates prevailing at that time only or through DBT as in case of LPG Cylinders.

c) ***Need for timely availability of seeds at Government outlets:*** Farmers has been facing the problem of availability of seeds during sowing time that needs to be addressed

Going forward, an integrated database (using the Jan Dhan, Aadhaar, Mobile platform) can ensure that the area insured for a crop does not exceed its gross cropped area, by preventing multiple loans being taken for the same land. The growth of weather-based insurance and the entry of more players can provide checks and balances, but the insurance regulator should prepare for fresh challenges. To reduce fraudulent claims, ***a robust no-claims bonus will help.***

3.5 Conclusion

The PMJDY is intended to achieve two objectives: better transmission of social welfare benefits and also financial inclusion. However, true financial inclusion will require more than opening bank accounts. So, there is an immediate need for allowing and encouraging entrepreneurial innovation to cater to the varying needs of consumers of financial services. Given the low levels of penetration of insurance and pension, PMJDY as it progresses further will enable the beneficiaries to avail other financial products like life insurance, personal accident insurance and Atal pension scheme. Under the Jan Suraksha scheme, the study found that there is lack of sustained focus to expand insurance coverage leading to dip in enrolment. So, we believe a corrective measures like expanding Jan Suraksha outreach in next 2-3 years through strong mass media campaigns by banks, clubbing Jan Suraksha with PDS and MGNREGS, putting in place mechanism to track policy, capacity building of BMs as well efficient commission payouts.

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Chapter IV
Demand & Supply of Insurance Policies in the Market: Evidence from Primary Survey

4.1 Introduction

In many parts of the country, dealing with (life) insurance conjures up an image of a bad omen. Insurance salesmen (and they are mostly men) are seen to be bearers of bad omen. The superstition revolves around the belief that if you buy life insurance, the probability of your death increases. This is not just in India. It is true in many other parts of the world as well (e.g., Mexico). Even in English, we use the term "life" insurance that really means "death" insurance. With this beliefs, lack of awareness and knowledge about insurance has remained as the important reason for the poor penetration of the sector in the country. To increase the insurance penetration, IRDAI and insurers have taken various education initiatives to improve awareness about the insurance industry and also the variety of products that are covering various risks. Most of these initiatives were supply driven - supply of insurance policies to the people at their doorstep. If we look at the insurance policies available around the corners seems to be similar in features, which may be due to regulations do not leave much leeway for innovation.

Now, it is the time to introspect as to why the demand for insurance has not been effective despite in improving economic conditions of the poor people. In this Chapter, we have conducted a survey of the front line bank branch officers (supply side) who deal with the sale of insurance products, to know the issues associated with insurance business and its impact on the banks. From the demand side, a survey of the insurance buyers also conducted to find out the awareness among the people towards insurance. This survey also aims to find out the reasons for the lower insurance consumption in India.

4.2 Performance of Banks under Bancassurance

Simply, bancassurance is known as the selling of insurance policies to the customers through their branches. The concept of 'bancassurance' has roots in France in 1980s, and spread across different parts of Continental Europe since; it has spread its wings in Asia, in particular, in India and China. In 2000, it originated in India, when the Government issued a notification under Banking Regulation Act which allowed Indian banks to do insurance distribution. It started picking up after IRDAI passed a notification in October 2002 on 'Corporate Agency' regulations. As per the concept of 'Corporate Agency', banks can act as an agent of one life and one non-life insurer, which is still applicable to the participating banks. There are several

reasons why banks are selling insurance, however, the most important reasons are: they have access to the market, trust of customer and good relationship with the customer. In addition to that, the interest income of the banks has been declining, so the cross-selling activities earn a substantial amount of non-interest income through commissions. However, it is not just about selling insurance products to bank customers but exploiting the true synergies between the strengths of the bank and insurer. Banks have a huge customer base and also have pan India presence with the desired infrastructure. While insurance companies have a bunch of products but don't have initial desired pan India infrastructure and customer base. So, the collaboration between banks and insurers benefit both in terms of business, by satisfying the needs of the insurance buyers.

In the Union Budget for 2013-14, the Finance Minister announced that banks would be permitted to act as insurance brokers. Consequent to that IRDAI formulated and notified the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013 to enable banks to take up the business of insurance broking in August 2013. Accordingly, the extant instructions on the conduct of insurance business by banks have been reviewed by RBI in 2015. RBI has advised that banks may undertake insurance business by setting up a subsidiary/joint venture, as well as undertake insurance broking/ insurance agency/either departmentally or through a subsidiary. However, it may be noted that if a bank or its group entities, including subsidiaries, undertake insurance distribution through either broking or corporate agency model, the bank/other group entities would not be permitted to undertake insurance distribution activities, i.e., only one entity in the group can undertake insurance distribution by either one of the two modes.

Table 4.1: Individual New Business Performance of Life Insurers (% Share)

	In Premium			**In Number of Policies Issued**		
	FY14	FY15	FY16	FY14	FY15	FY16
Individual Agents	78.4	71.4	68.3	90.1	83.7	82.8
Corporate Agents-Banks	15.6	20.8	23.8	5.7	9.3	10.2
Corporate Agents-Others	1.3	1.4	1.4	1.7	1.5	1.2
Brokers	1.6	1.8	1.6	0.8	1.0	0.9
Direct Selling	3.1	4.4	4.4	1.7	2.6	2.1
Micro Insurance Agents	-	0.0	0.0	-	1.9	2.1
Service Centres	-	0.0	0.0	-	0.0	0.0
Web Aggregators	-	-	0.0	-	-	0.0
Insurance Firms	-	-	0.0	-	-	0.0
Online	-	-	0.5	-	-	0.8
Others	-	-	0.0	-	-	0.0

Source: IRDAI

In India, most of the banks are undertaking insurance business through their subsidiary/JV. Today, the 'Corporate Agents - Banks' channel, accounts for about 24% share in new business life insurance (individual) as per data for 2015-16 for the amount of premium, while for the number of policies the share is 10.2%.

Though banks have been focusing more on non-interest income from a long time before but the concentrated efforts have increased especially in the post-global financial crisis 2008 period. To remain profitable, banks have targeted to capture the growing needs of the retail customers in the way of selling third-party insurance, mutual funds, and other financial products. As per the RBI[6] data, the share of other income to total income ratio is highest for foreign banks (24%), followed by private banks (10%) and then the public sector banks (19%). Within other income, almost half of the pie comprises commissions. This is more pronounced for private banks - on an average, 55% of their other income came from commissions in 2017, followed by foreign banks at 38%. Further, commission income contributed around 34% of operating income for private banks and 25% for public sector banks. Commission to net profit ratio has crossed 100% for some banks but average it is more than 50%, which indicate how commissions are important to banks.

As commission contributes a large portion to net profit, banks would want to concentrate on the more lucrative part of the business. Note that the interest income to net profit ratio would also be high as interest income is large for banks. While, profits from interest income as measured by Net Interest Margins (NIMs) are declining and a substantial chunk of commission income goes to profits of the bank. In fund based revenue, the bank first accepts deposits and then lends to earn revenue. Scope to earn higher profit margins is limited due to competition in the lending segment and also there is a risk of default/non-payment of the loan. In a fee-based revenue model, little capital needs to be deployed and, hence, return on capital employed improves with an increase in such revenues. So, banks are focusing on this venture, by ignoring the core activities of the banking business.

4.3 Banker's View about 'Bancassurance': Through Primary Survey

To understand the views of the bankers about the sale of insurance policies, especially Jan Suraksha policies, in the Bank, we have surveyed 100 sample branch managers/front-line officers with a proper questionnaire (refer annexure). The sample was selected through 'quota sampling'.

[6] Statistical Tables Relating to Banks in India, RBI

4.3.1 Sample Selection for the Survey through "Quota Sampling"

The results of a survey mostly depend on the quality and appropriate sampling distribution, which may be characterized by the number and selection of subjects or observations. Obtaining a sample size that is appropriate in both regards is critical for many reasons. When the sample size is pre-determined by the researchers, along with appropriate proportions of sub-samples, the sampling technique predominantly used is "**Quota Sampling**". As the sample size is fixed at 100 branches, we followed the Quota Sampling for the selection of sample branches.

The **rationale for choosing the 100 branches** is as follows:

a) In India, as of Mar'17, there are more than 1.3 lakh bank branches and even to capture 1% of that for the primary survey is a mammoth task. Additionally, the project time period is very short to cover more branches in the sample.

b) The sample size depends largely on how accurate we want our survey data to be. In other words, how closely we want our results to match with those of the entire population. In data empirical literature, there are two measures that affect the accurateness of the data:

   - **Margin of Error:** The margin of error expresses the maximum expected difference between the actual response of the entire population of the respondent category (bank employees/customers for this study) and that of the sample size. To be meaningful, the margin of error should be qualified by a probability statement (often expressed in the form of a ***confidence level***).

   - **Confidence Level:** The confidence level describes the degree of uncertainty associated with a sampling method. Suppose we used the same sampling method to select different samples and to compute a different interval estimate for each sample. Some interval estimates would match with the actual population responses. A 90% confidence level means that we would expect 90% of the responses to match with the actual population responses; A 95% confidence level means that 95% of the responses would match tally with the actual population responses; and so on.

The table 4.2 indicates the appropriate sample size at 95% confidence level with a different margin of errors. If the population size is more than 1 lakh and we choose margin of error at 5% then sample size would be 384. However, it was not possible for us to conduct the survey in 384 branches in such a short span of time, we increased our margin of error at 10%, which led us to our sample size of 100.

Table 4.2: Sample Size at 95% Confidence Level			
Population Size	Sample Size		
	Margin of Error		
	10%	5%	1%
100	49	80	99
500	81	217	475
1000	88	278	906
10000	95	370	4899
100000	96	383	8762
500000	96	384	9423

In order to choose sub-sample from our sample of 100 branches, we have followed a very logical and appropriate methodology. As of March 2017, we have calculated the share of branches as per population group wise, viz. Rural, Urban, Semi-Urban, and Metropolitan. We divided our sample of 100 branches in that share only. Hence, table 4.3 provides our sub-sample according to population-group wise and bank-group wise. Since 15% of branch network belong to private sector banks, we have also taken in our analysis 15 branches of private sector banks. However, the sample did not consider any foreign bank branch, due to their negligible market share.

Table 4.3: Sample Distribution			
Population Group	Number of Branches	*of which*	
		PSBs	Pvt. Banks
Rural	38	32	6
Semi-Urban	27	23	4
Urban	19	16	3
Metropolitan	16	14	2
Total Sample	**100**	**85**	**15**

4.3.2 Survey Results & Discussions

We have conducted the primary survey of the branch managers/officers to appreciate the mind set of bankers regarding the sale of insurance through bank branches. The very first question that we have asked in the survey to the bankers was: 'Are you dealing with insurance business at your Branch?'. Out of the 100 sample respondents, all the respondents said YES. This result indicates that the banks are selling insurance policies like other banking products say FDs, PPF etc.

Questions		YES (No. of Respondents)		NO (No. of Respondents)
Q1	Are you dealing with insurance business at your Branch	100		0
Q2	If Yes, Why your Bank is selling insurance?	Managing Uncertain risk	Financial product	-
		64	36	

However, 64% of the respondents have a view that Bank is selling insurance to increase the non-interest income, while only 36% believe that to provide the desired financial product at one place to their customer. Interestingly, 58% of the bankers believe that insurance is for managing any uncertain risk likely to happen to the insured and only 42% believe that it is a financial product, which will benefit the customers. This result is mostly similar to their view given in Q2.

Questions		Financial Product (No. of Respondents)		Tool to Manage Risk (No. of Respondents)		
Q3	How you perceive insurance as	42		58		
Q4	What types of insurance you are dealing with?	Life	Vehicle	Crop	Health	Other
		100	87	0	87	0
	What is the sales share in business (approx.)?	70%	20%	0	10%	0

From the survey, the results indicate that all the banks are selling at least life insurance, while 87% of the branches are also sales general insurance products like health and vehicle insurance. Not a single branch was dealing with crop insurance, as banks are selling crop insurance as a bundled product with crop loans. The managers replied that people's demand for vehicle insurance is very low, while crop insurance is only 10% of the total business amount.

In Q5 to Q7, we asked about the selling of insurance policies in the Bank. Almost all the bank branches are selling insurance policies, both Jan Suraksha, and other subsidiary/JVs policies to their customers. Apart from this, branches have enrolled a substantial number of people in the Jan Suraksha scheme through camps in different places.

Questions		YES (No. of Respondents)		NO (No. of Respondents)	
Q5	Is your bank selling Jan Suraksha schemes of insurance?	100		0	
Q6	If **YES,** to whom, you are selling Jan Suraksha Schemes?	Customer who demand	To poor/no frill A/c	To everyone	Any Other
		78%	18%	4%	0
Q7	Is you Bank selling any other company's insurance policy?, If Yes which company?	Policy of your Bank/Subsidiary		Any Other Insurer	
		71%		29%	

In the Q8 and Q9, we tried to understand Bank's sales spirit to their customer. 82% of the respondents answered that there is no target for Jan Suraksha schemes whereas 90% of the respondents answered that there is always a target for sale other insurance policies. The Jan Suraksha policies are mostly opened in camps, in a mission mode, whereas in other insurance policies there is a target in every week/month.

Questions		YES (No. of Respondents)	NO (No. of Respondents)
Q8	Is there any target to sell Jan Suraksha schemes?	18%	82%
Q9	Is there any target to sell other insurance schemes?	90%	10%

In Q10 and 11 deals with the customer awareness and bankers selling behaviour of the insurance policies. Almost all the officers who are dealing with insurance told that they always informed the basic features of the insurance policies to the customer. While more than 50% of the customers have the basic information about the type of insurance policy, say endowment, ULIP etc.

Questions		YES (No. of Respondents)	NO (No. of Respondents)
Q10	Do you explain the policy details to the customer?	100%	0
Q11	Before buying insurance, whether the customers have some basic information about the policy?	56%	44%

In the Q12 to Q14, we asked the managers acceptability of Jan Suraksha schemes over other policies. More than 50% respondents believe that Jan Suraksha policies are better than to other insurance companies same type of policies, mainly due to the low premium. Out of the 54% officers, who told to have recommended the buyers to get a Jan Suraksha policy, around 83% preferred PMJSBY, which has only Rs 12 premium for Rs 2 lakh accidental benefit.

Questions		YES (No. of Respondents)		NO (No. of Respondents)
Q12	Do you think Jan Suraksha scheme is better than other insurer schemes?	52%		48%
Q13	Do you recommend any prospect customer to buy Jan Suraksha scheme over other policies?	54%		46%
Q14	Which scheme and why?	PMJSBY	PMJJBY	APY
		83%	13%	4%

Q15 is about the renewal of policies. The terms conditions of the Jan Suraksha policies say that the policies will be auto-renewed in the month of June. However, the bankers have a view that 80% of the Jan Suraksha policies got auto-renewed while in case of other policies the renewal happened mostly through a manual process.

Questions		Auto Renew (No. of Respondents)	Manual Renew (No. of Respondents)
Q15	If it is term assurance, how do you renew the policy?	52%	48%

As discussed above, that most of the customers bought Jan Suraksha policies online, so there is no policy statement available to them. The customers who subscribed the policy through Branches also did not get the policy certificates, they only received the paid receipt of premium. 71% officers told that this facility is not available and told that if anything happened to the customer, the claim could be processed from his account, as everything happened through the system. Interestingly, 3% of the officer told that they did not know about the certificate.

Questions		YES (No. of Respondents)	NO (No. of Respondents)	
Q16	In the case of Jan Suraksha do you give policy document/receipt to the customer?	72% (receipt)	38%	
Q17	If No, why	Facility Not Available	Customer Not Asked	Any Other
		71%	26%	3%

In Q18, we asked the branch managers, about the policy suggestions to improve Jan Suraksha schemes. The bankers' view was that, (i) the sum assured should be higher, as premium need to keep at the same level at least for another 2/3 year; (ii) Government should make it compulsory with the customers who get enrolled under different subsidy schemes like MGNREGA, Gas subsidy etc. Without insurance, he/she will not get the subsidy benefits; (iii) The schemes should sold by all banks/insurance companies online, like vehicle insurance, and anyone should able to buy the policies with long-term insurance facility, say 3 years and 5 years; (iv) the policy paper should instantly be mailed to the customers' mail ID automatically; (v) compulsory APY enrolment for all the unorganised sector workers and also for the no-frills account holders.

In Q19, we asked the managers how to increase awareness among the people about insurance. The views are interesting. Some officers have a view that nobody demand insurance, though they have the knowledge about insurance. It always remains a push product. However, after the introduction of Jan Suraksha schemes, the customers are asking about the Jan Suraksha policies. This may be due to low-cost insurance. To increase the insurance penetration in the country, there is a need to publicise the consequences, if the bread earner of the family expired. In fact, our honourable prime minister should address the issue through *'Mann Ki Baat'.* Besides, in every theatre, there should be the first advertisement of insurance.

The bankers view about selling insurance policies in their branches help customers to get the desired financial products at one point and also bank get a good amount of non-interest income through commission. However, the pressure to sell insurance from the management should be stopped. Otherwise, mis-selling will continue to increase further.

4.4 Reasons for Low Insurance Consumption in India

Before going to the survey results of the demand side responses, we here summarise the findings of some studies to find out the reasons for low insurance penetration in India. Prior to liberalisation of the sector, it was perceived that the low level of insurance penetration was mainly due to ineffective market strategies adopted by the insurers. The advertising initiatives were limited to only print and electronic media, which mainly promoted life insurance products as a tax saving tools for individuals. However, in the post-deregulation period, the level of insurance penetration and density in the country increased but still remained at a low level, as compared to other countries like US, UK, France and South Africa. This may be due to a

number of factors like economic slowdown, population rise and a slowdown in premium collections etc.

4.4.1 Review of Literature

There are a few numbers of literature are available in the public domain, who have studied the reasons for low insurance penetration in India. Some of the important studies are reviewed and highlighted as below:

A study (by Reshmi, et al. (2007) conducted on a community cross-section basis in Mangalore found that 64% of the 242 respondents were aware of health insurance. Of the total respondents, 45% came to know about it through the media. The mean agreeable amount to be paid as the premium was found to be Rs. 1804. Middle and low-income groups preferred Government instruments to private instruments. Another study conducted in Rajasthan (Jain and Goyal, 2012) analysed the awareness of policyholders about their rights and duties with respect to life insurance contracts. The study found a low level of awareness across different demographic groups.

In a report by NCAER[7] (2011) which conducted a survey of 30,200 households across 29 States and Union Territories to gauge awareness levels about various insurance tools across all socio-economic groups found that apart from macroeconomic issues, the insurance penetration in India is low due to a number of other factors, like low consumer preference, untapped rural markets, and constrained distribution channels. In urban areas, life insurance penetration is approximately 65% and is considerably lesser in the low-income unbanked urban areas. The life insurance penetration in the banked rural segment is estimated to be approximately 40% and negligible in the unbanked rural areas. A high share of the insured belonged to the regular salaried or self-employed category. On an average, the income and education levels of the insured were higher than those of the uninsured. Television was the primary source of awareness about insurance. Further, males accounted for a higher share of the insured than females. There was a lack of awareness about insurance concepts while certain misunderstandings also prevailed even among policyholders. According to feedback received in the survey, the problem has been exacerbated due to: (i) agents' inability to clearly explain the features of the products; (ii) lengthy documents that are not user-friendly; and (iii) the perception that agents are only concerned with their commissions.

[7] Pre-Launch Survey Report of Insurance Awareness Campaign by NCAER in 2011; funded by IRDA

A study by Parida & Acharya (2014) in Uttar Pradesh found that the most prominent reason cited by the uninsured persons is that the insurance products are too expensive and nearly 38% of the uninsured households cited this as a reason for not taking insurance. Similarly, as many as 23% of the households feels that insurance is not very important.

4.4.2 Demand Side Survey: Results and Discussions

Due to the short span of time, we have conducted a small survey of 200 samples to study the demand side with a proper questionnaire. The sample was selected from the branches where the supply-side review was undertaken. We kept the questionnaire limited to only 10 questions, as people may hesitate to answer lengthy questions. The questions of the demand-side survey kept most similar to supply side questions, as to know both sides' view on the same points. Additionally, on the demand side, the questions focused on the awareness about insurance.

The first four question of the survey was to know whether the respondents have any knowledge of insurance or not. Out of the 200 samples, 88% of the respondents knew about insurance. Only 12% people, don't have any clear knowledge about insurance, though heard about it. Out of the 176 respondents, who know about insurance, only 77 persons (46%) have purchased any type of insurance either for himself or for a family member. There are 56% (99) persons who don't have any type of insurance, despite having the knowledge of insurance.

<table>
<tr><th colspan="2" rowspan="2">Questions</th><th colspan="2">YES
(No. of Respondents)</th><th>NO
(No. of Respondents)</th></tr>
<tr><td>Q1</td><td>Do you have any knowledge about insurance?</td><td colspan="2">88% (176)</td><td>12% (24)</td></tr>
<tr><td rowspan="2">Q2</td><td rowspan="2">If Yes, Have you purchased, any type of insurance policy for yourself or for family members?</td><td>Yes</td><td>No</td><td rowspan="2">-</td></tr>
<tr><td>73% (129)</td><td>27% (48)</td></tr>
</table>

Now the sample has reduced to 129 persons out of the 200, who have knowledge about insurance and also purchased any type of insurance policy. In the Q3, we asked what type of policy they purchased. Most of them purchased life and other insurance, while only 4 peoples have health insurance policy. There are some people who have all types of insurance policy except crop insurance. There are 20 people who have accidental insurance and 41 other have combined insurance policies.

Questions		Health	Life	Vehicle	Crop	Any Other
Q3	If Yes in Q2, What type of policy?	4	41	23	0	61
Q4	If No in Q 2, what is the reason for not buying?	Not required	Costly	Not Suited	Sum assured less	None
		18 (37%)	11 (23%)	3 (7%)	2 (4%)	13 (28%)

Out of the 200 samples, there are 48 people (in Q2) who did not purchase any insurance policy but have knowledge about insurance. Out of the 48 people, 18 people told that insurance was not required and a waste of money. Only 5 people told that either the products were not suited to their requirement or sum assured was very less. There are 13 persons who told that the 'other reason' was that they did not have enough money to buy insurance. In other words, 24 (13+11), i.e., 50% people indicate that insurance is not affordable with their income level.

The Q5 and Q6 are addressed to know about the knowledge of Jan Suraksha schemes among the people. In Q1, we found that 176 persons have knowledge of insurance, so we asked them whether they have any idea of Jan Suraksha schemes. There are 87% (153) people who know about Jan Suraksha schemes and only 13% (23) people heard about it but don't have any detailed information about it. Finally, when we asked whether they have purchased any policy of Jan Suraksha scheme, the result is interesting. ***There are only 20 people who have purchased any type of Jan Suraksha policy, out of the 200 sample respondents, i.e. only 10%.***

Questions		YES (No. of Respondents)		NO (No. of Respondents)
Q5	Do you have detailed information about Jan Suraksha scheme?	153 (87%)		23 (13%)
Q6	If Yes, have you purchased for yourself or gift to someone else?	Yes	No	-
		20 (13%)	133 (87%)	

Questions		YES (No. of Respondents)			NO (No. of Respondents)
Q7	Do you have any loan with any bank?	107 (53.5%)			93 (46.5%)
Q8	If Yes, whether the bank officers offered any insurance with the loan?	Yes	No	Don't Know	-
		41 (38.3%)	7 (6.5%)	59 (55.1%)	
Q9	Do you think insurance should always be linked to the loan amount?	Yes	No	Don't Know	-
		83 (77.6%)	11 (10.3%)	13 (12.1%)	

In the Q7 to Q9, we asked all the 200 respondents about their relationship with any bank in terms of credit. There are 107 people who have any kind of loan in a bank. Out of the 107, there are 41 (38.3%) people who know that Bank has given any type of insurance with the loan amount while 59 (55%) people don't have any idea about that. We believe, banks are selling combined insurance to Home Loan and Education Loan customers to manage their risk. In Q9, 78% of the people who have loan account are in favour of combined insurance. This will help the policy taker to repay the loan if any untoward event happens to him.

Finally, to link the empirical analysis results of the demand for insurance to the model in Chapter 5, we asked all the 200 respondents that 'what are the factors that most affect their insurance consumption. Interestingly, most of the people believe that income, savings, and return are the most important factors to buy insurance. Around 80% (161) people believe that insurance choice is based on return, then the real aim of insurance would not be fulfilled. Most of the people buy life insurance, as a savings product so that they can withdraw at the time of need, say marriage, education etc purposes.

Questions		Income	Inflation	Savings	Return
Q10	In your view, what are the most important factors that influence you to buy insurance? (you may select more than one)	187	12	119	161

4.5 Conclusion

In India, the bancassurance model has been working smoothly and banks are also earning a good amount of non-interest income through the commission in the sale of insurance policies. In this chapter, we have conducted a survey of the front line bank branch officers (supply side) who deal with the sale of insurance products, to know the issues associated with insurance business and its impact on the banks. The findings of the supply side survey indicate that almost all the bank branches are selling insurance policies with an aim to increase bank's non-interest income. Among the insurance policies, life insurance policies are most common among the buyers. There is always a target to sell the other insurance policies over Jan Suraksha policies and the managers' sell the Jan Suraksha policies. However, bank enrolled the Jan Suraksha policies through camps in a mission mode. The bank manager has a view that nobody demand insurance, though they have the knowledge of insurance. It has always remained a push product. However, after the introduction of Jan Suraksha schemes, the customers are demanding for the same, may be due to the low-cost of insurance.

Further, a demand-side survey of the insurance buyer also conducted to find out the awareness among the people towards insurance. The survey results indicate that over the years, there has been an increase in the level of awareness about insurance and most of the people would recommend the buyer to buy Jan Suraksha scheme over the same type of policies of other companies due to the affordability. Among all the schemes, PMSBY has enrolled highest number of customers may be due to the cheap price.

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Annexure: Survey Questionnaire

Part I: Supply Side Questions to Branch Officers

1. **Are you dealing with insurance business at your Branch?**

   ☐ Yes ☐ No

2. **If Yes, Why your Bank is selling insurance?**

   a) To increase non-interest income as a part of cross selling

   b) To provide desired financial product at one place to the customer

3. **How you perceive insurance as a:**

   a) Financial Product

   b) Tool to Manage Risk

   c) Any Other (Please Specify)

4. **What types of insurance you are dealing with? What is the sales share in business (approx.)?**

   a. Life _____

   b. Vehicle ____

   c. Crop_____

   d. Health_____

   e. Any Other (Please Specify)

5. **Is your bank selling Jan Suraksha schemes of insurance?**

   ☐ Yes ☐ No

6. **If Yes, to whom, you are selling Jan Suraksha Schemes?**

   a. The customers, who demand

   b. Sale to the poor/no-frills account holders

   c. Bank push the products for sale to everyone

   d. Any Other (Please Specify)

7. Is you Bank selling any other company's insurance policy?, If Yes which company

a. Insurance Policy of your Bank/Subsidiary

b. Any Other Bank (Please Specify)

8. Is there any target to sell Jan Suraksha schemes?

☐ Yes ☐ No

9. Is there any target to sell other insurance schemes?

☐ Yes ☐ No

10. Do you explain the policy details to customer?

☐ Yes ☐ No

11. Before buying insurance, whether the customers have some basic information about the policy?

☐ Yes ☐ No

12. Do you think Jan Suraksha scheme is better than other insurer schemes?

☐ Yes ☐ No

13. Do you recommend any prospect customer to buy Jan Suraksha scheme over other policies?

☐ Yes ☐ No

14. Which scheme and why?

a) PMJSBY

b) PMJJBY

c) APY

15. If it is term assurance, how do you renew the policy?

a) Auto Renew

b) Manual Renew

16. In the case of Jan Suraksha do you give policy document/receipt to the customer?

☐ Yes ☐ No

17. If No, why

a) Facility is not available

b) Customer don't demanded

c) Any Other (Please Specify)

18. Suggestion to improve in the Jan Suraksha scheme (if any)

19. Suggestion to Increase Insurance Awareness among the People (if Any)

20. Do you think Bank should Sale Insurance? (Please specify the reasons for Yes/No)

Part II: Demand Supply Side Questions to Customers

1. Do you have any knowledge about insurance?

☐ Yes ☐ No

2. If Yes, Have you purchased, any type of insurance policy for yourself or for family members?

☐ Yes ☐ No

3. If Yes in Q2, What type of policy?

a) Health Insurance

b) Life Insurance

c) Vehicle Insurance

d) Crop Insurance

e) Any Other (Please Specify)

4. If No in Q 2, what is the reason for not buying?

a) Not required

b) Costly affair

c) Products not suite the need

d) Sum assured is very less

e) None of the Above

5. Do you have detailed information about Jan Suraksha scheme?

☐ Yes ☐ No

6. If Yes, have you purchased for yourself or gift to someone else?

☐ Yes ☐ No

7. Do you have any loan with any bank?

☐ Yes ☐ No

8. If **Yes, whether the bank officers offered any insurance with the loan?**

☐ Yes ☐ No ☐ Don't Know

9. Do you think insurance should always be linked to the loan amount?

☐ Yes ☐ No ☐ Don't Know

10. In your view, what are the most important factors that insists you to buy insurance? (you may select more than one)

a) Income

b) Inflation

c) Savings

d) Any Other (Please Specify)

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Chapter V
Factors Affecting Life Micro-insurance Uptake in Odisha: Evidence from a Primary Survey[8]

5.1 Introduction

Micro insurance is usually understood to be the provision of an array of insurance services for low-income households with a low premium and low sum assured. Churchill (2006) is of the view that micro insurance operates by risk-pooling, financed through regular premiums and is tailored to the poor who would otherwise not be able to buy insurance. A recent study by the CGAP (2009) estimates the Indian micro insurance market to have some 14 million adults covered by life micro insurance in India. In a country with some 120 million families living on less than $2 a day, this is a very small proportion of the potential micro-insurance market. A major share of this market belongs to compulsory credit linked insurance distributed by Micro finance institutions (MFIs), rural banks, and cooperative banks. India being the second most populated country in the world has a large chunk of population living on more than $1 but less than $2 a day. Yet the awareness on insurance (life/health etc.) is considerably low among such population. The present study started with a primary field visit in Cuttack and Bhubaneswar of Odisha to understand the nature of this market and came up with potential research questions. In the first phase of the visit, the authors interviewed the senior managers and chief executives of some MFIs who were the distribution channels for life/health micro insurance products, both credit linked and stand-alone. Some beneficiaries were also interviewed in the process. The findings from the interviews of the MFI functionaries indicated conflicts of interests among different stakeholders. First, risk carriers/insurance companies do not develop products keeping the poor in mind rather they float products with exclusion clauses to minimize claims in general. The kind of products they develop therefore is not socially sustainable. In the business of micro insurance, it's only the insurance companies that reap profits not the MFIs or NGO-MFIs. The poor don't benefit since they are forced to buy products that they don't require as such. For instance, they are forced to buy a personal accident policy whereas they need a health insurance policy or a maternity policy. The insurer is not ready to customize a product in health since he sees a loss in that policy. The MFI is not taken into confidence while underwriting policies in which case the poor's interests are not addressed. Thirdly, the insurers/risk carriers

[8] This Chapter is based on a research project by Acharya & Bisht (2016), funded by Micro Finance Researchers Alliance Programme (MRAP) of the Centre for Micro Finance, IMFR, Chennai

are in the micro insurance business primarily to fulfil the social obligation clause stipulated by IRDA[9]. In India, a rapid increase in micro insurance schemes has been observed, due partly to the Insurance Regulation and Development Authority Regulations 2000 (July 14), which made it compulsory for the general insurance companies to allocate 5% of their gross premium income for provision of insurance in the rural and social sectors. According to the recent IRDA annual report, the number of micro insurance agents has grown from 4584 in 2008 to 8676 in 2010. And LIC has registered the highest number of agents in this segment followed by TATA AIG, Bajaj Allianz, and Birla Sun life. Finally, the beneficiary is at a loss as to the benefits of micro insurance especially when there are a plethora of schemes available without proper awareness on the schemes/products. Our in-depth interviews with few beneficiaries also revealed the fact that the beneficiaries have negligible knowledge on insurance in general and the policies bought by them in particular (mostly bundled with microcredit).

In the present study, an attempt has been made to understand the factors behind the uptake of life micro insurance in Cuttack and Bhubaneswar. The rest of the paper is organized into four sections. The second section reviews some selected past studies on micro insurance. Section three presents the data used and method employed in the study. Results are discussed in the fourth section and the last section offers some concluding remarks.

5.2 Review of few Selected Past Studies

In this section, a few studies conducted in the recent past on different aspects of micro insurance are briefly reviewed. In a recent paper Gunaranjan (2007) points out the challenges to be overcome to achieve sustainable and scalable micro-insurance models in India with some exemplary innovations. Among the challenges, he emphasizes on creating actuarial data for micro insurance, rather than searching for actuarial data for starting micro insurance,

[9] Some voices from the field highlighted these points. To quote some of them, the CEO of a reputed MFI in Orissa said, "At the moment risk carriers/insurance companies are not developing products keeping the poor in mind rather they float products with exclusion clauses to minimize claims in general. The kind of products they develop therefore is not socially sustainable. The products can be region specific suiting the beneficiaries". Another CEO was of the view, "In the whole business of micro insurance it's only the insurance companies that make money not the MFIs or NGO-MFIs. The poor don't benefit since they are forced to buy products that they don't require as such. The MFI is not taken into confidence while underwriting policies in which case the poor's interests are not addressed". The area manager of a private life insurance company said, "MFIs are only interested in products covering life risk for the loan tenure and are not willing to collect the premium beyond that tenure. This is not conducive to providing long term insurance products to poor people through the MFIs as a distribution channel. Hence, the practice of "shallow" micro insurance products".

rationalising the underwriting procedures for micro-insurance to make them accessible to target clients.

Rao (2007) flags issues such as the insurance suppliers' reluctance to enter the rural population and the reluctance of the intended rural beneficiaries to accept the ideas behind the initiatives of insurers. In this context, he opines that the value and belief systems of the rural people that are targeted for sale of micro- insurance products have to be understood and analyzed. Thorough market research to understand their needs is also warranted.

The potential conflicts of interest between insurers, providers, and clients from a study of micro health insurance units conducted in several locations in India. Dror (2008) found that micro health insurance units with sufficient autonomy to adopt the insurance solution to the specific conditions of the client-group served (mostly organized as community-based mutual schemes) have demonstrated the coherent capacity to find a balance between the three said sets of potentially conflicting interests. The study also finds that taken together with the multiple variations in client's needs, cost of health care, availability of service providers and clients' solvent demand for health insurance across locations dictate the need to combine a different optimal benefit package for each location, based on its context-specific parameters. But this approach to health insurance product-design is at complete variance with the reality of India's health insurance today. Today, the demand for health insurance is in fact determined by suppliers of health insurance, through the limited set of benefit packages, often determined by insufficient information of the needs, or perhaps by the wish to limit insurers' exposure to risks that are more likely to produce profits.

In another study Dror (2007) et al provides evidence on Willingness to pay (WTP), which they gathered through a unidirectional (descending) bidding game among 3024 households (HH) in seven locations where micro health insurance units are in operation. The Insured persons were found to be reporting higher WTP values than the uninsured ones. The correlation between WTP and education was found to be secondary to that of WTP with HH income. HHs that experienced a high-cost health event reported slightly higher WTP. The observed nominal levels of WTP were higher than has been estimated hitherto.

Ito and Kono (2010) are of the view that problems widely shared among health micro insurance practitioners in India are low take-up rates, high claim rates, and low renewal rates. The root cause of these symptoms according to the authors is adverse selection. In the case of low take-up rates and low renewal rates, unfamiliarity with insurance is cited as a reason as well. Similarly, in marketing research conducted by microfinance institutions (MFI), it is commonly

concluded that programs are not suitably designed to match the demand of the poor households (e.g., relatively large lump sum payments, significant transaction costs, and dependence on relationships with unfamiliar parties), and that the poor are less educated and cannot understand the concept of insurance or risk management. Through a case study in Karnataka, the authors found some evidence that "people behave in a risk-loving way when facing the risk of losses, which is consistent with prospect theory". The authors also found some evidence for the existence of adverse selection. Households with a higher ratio of sick members are more likely to purchase insurance and households with a sick household head are less likely to purchase insurance. This might capture the fact that households with a sick household head have less income flow and have difficulty in financing the insurance premium.

In a paper Chakarabarti and Ravi (2011) point out that though several micro-insurance schemes in life, health, crop, and property have been tried out in the recent past life insurance has been the most successful in terms of profitability and outreach and the reason for this being that it is commonly offered as a product tied to the loan. Health insurance, on the other hand, has been piloted by several MFIs but very few schemes have been rolled out extensively and those provide limited coverage and rely heavily on the public health care system.

Sahu (2011) examined and analyzed the process, products, observations and other aspects of micro insurance programme in three states and concluded that in many contexts the existing micro insurance products were not demand driven in both high and low outreach areas. There is lack of understanding, awareness, extension services and development of insurance market that grossly affect the wider use of insurance products and its uptake, particularly, among low-income groups. The analysis based on primary household data and information collected from other stakeholders found lack of pro-active risk management among the sample households with an adequate market-based insurance products. The coping strategy adopted in response to these risks in the study areas were mostly conventional and it included informal borrowing (42%), saving (18%), off-farm activities (16%) and distress sale of assets (14%). Though access to micro insurance has been largely due access to microcredit loan from MFI individual stakeholders' perspective seems to outweigh the core objective of micro insurance programme. In many cases, uptake of insurance product was involuntary in nature and it was considered more as a saving than a tool for risk management.

5.3 Data and Method

Salience belief elicitation

According to theory of reasoned action, it is desirable to use a qualitative free-response elicitation procedure to identify the salient beliefs of a subject population with respect to a given behaviour by asking subjects to "list the characteristics, qualities, and attributes of the object or the consequences of performing the behaviour"(Fishbein and Ajzen 1975). This elicitation approach requires eliciting statements of belief from specific subjects when they are asked to think about using a specific system (or a set of alternative systems).

Five in-depth interviews were conducted to elicit the salient beliefs about micro insurance service. The respondents were beneficiaries of micro-credit schemes and may or may not have made any claims. The results helped in the construction of a questionnaire which was piloted and refined.

Apart from salient belief elicitation, this study followed a two-step procedure for understanding consumer's acceptance of health micro-insurance services. Stage 1 consisted of reviewing the literature on issues in insurance services. Stage 2 entailed interaction with the academicians and practitioners in micro-credit and related product followed by field-based qualitative research. This qualitative phase resulted in statements regarding life or health micro-insurance.

The questionnaire was then administered to a sample of 286 beneficiaries of micro-insurance services. The beneficiaries were selected from three different life micro insurance schemes i.e., Anganwadi Karyakartri Bima Yojana.(AKBY), credit linked life insurance scheme provided by Swayamshree Micro credit Services(SMCS), and two micro insurance schemes of Life Insurance Corporation of India(LIC) i.e. Jeevan Mangal and Jeevan Madhur. AKBY is provided by the Govt. of India through the LIC's social security scheme with a premium of Rs280/- per annum per member. Out of the Rs280/- Rs.80 is borne by the beneficiary (anganwadi karyakartri), Rs100/- by the Govt. Of India and Rs.100/- by the LIC's social security fund. SMCS credit linked life micro insurance schemes have premium varying between Rs65/- to Rs310/- depending on the amount and tenure of the loan. The two schemes of LIC studied here are Jeevan Managal and Jeevan Madhur. Jeevan Managal is a term assurance plan with return of premiums on maturity, the minimum premium being Rs.15/- per week and the sum assured is in the bracket of Rs10,000- to Rs.15,000/-. Similarly, Jeevan Madhur is a simple savings related life insurance plan with the minimum weekly premium of Rs15/- and sum assured between Rs5,000-Rs30,000/- on death and maturity respectively.

The data received was factor analysed using SPSS statistical package (version 16.0). We used orthogonal (varimax) rotation to obtain a stable factor structure containing factors with eigenvalues greater than 1. Under a five-round factor analysis, a variable deletion process was undertaken, keeping in mind the criteria suggested by Hair et al. (1995) and Kline (2000). The Following elimination criteria were used -

1) No loading greater than 0.50
2) No loading greater than .30 on more than one factor
3) Reliability of the factor less than 0.50.

We used the last criteria (3) to formulate a stable and conceptually sound factor structure. A brief description of each round of factor analysis is presented here.

Round I: Initial factor analysis yielded ten factors. Together, the ten factors explained 64.9 per cent of the variance. Using the elimination criteria, we removed 14 items and rerun the analysis.

Round II: The second round factor analysis produced eight factors that explained 64.3 per cent of the variance. In this stage, 15 items were eliminated.

Round III: Round three yielded 7 factors that explained 63.5 per cent of the variance. At this stage, 12 items were removed from further analysis.

Round IV: The fourth round of factor analysis resulted in 7 factors that explained 66.7 per cent of the variance. We removed 8 items.

Round V: The final round of factor analysis resulted in a four-factor structure consisting of 13 items. The three factors had satisfactory internal reliability (Cronbach alpha coefficient > 0.60) and cumulatively explained 70 per cent of the variance.

Logistic Regression

The logit link has the form:

$$\text{Logit}(P) = \text{Log}\left[P / (1-P)\right]$$

The term within the square brackets is the odds of an event occurring. In the Present case, this would be the odds of a beneficiary being perceived to be loyal to the insurance product.

Using the logit scale changes the scale of a proportion to plus and minus infinity, and also because Logit (P) = 0, when P=0.5. When we transform our results back from the logit (log odds) scale to the original probability scale, our predicted values will always be at least 0 and at most 1.

Logistic regression theory

Let P_i = (Pr Y=1 given $X=x_i$) , then one can write the model

$$\text{Log}[P_i / (1-P_i)] = \text{Logit}(P_i) = \beta 0 + \beta 1\ x_1 + \ x_{2\ +\ldots\ldots\ldots+}\ x_n$$

In our case *Pi* is the probability of being perceived as loyal/switching to another product/willing to pay more premium etc., and x1 to x_n are the different factor scores obtained for different factors and β0 & β1 are the model coefficients. We can write the model in terms of **odds** as:

$$Pi/(1-Pi) = \exp(\beta 0 + \beta 1\ x_1 + \ x_{2\ +\ldots\ldots\ldots+}\ x_n\ )$$

Or in terms of the probability of the outcome (e.g. perceived behaviour problems) occurring as:

$$Pi= \exp(\beta 0+ \beta 1\ x_1 + \ x_{2\ +\ldots\ldots\ldots+}\ x_n\ )/(1 + \exp(\beta 1\ x_1 + \ x_{2\ +\ldots\ldots\ldots+}\ x_n\ xi))$$

Overall Percentage - This gives the percent of cases for which the dependent variables was correctly predicted given the model. In this part of the output, this is the null model. 73.5 = 147/200.

5.4 Results and Discussions

Four factors i.e., usefulness, image, individual perceptions, and time emerged as the final factor structure. A brief discussion of the factors is given below.

- **Usefulness-** This factor relates to the user perception about the general usefulness of micro-insurance services for risk management and mitigation. This factor explained 23.20 of the variance and consisted of five items corresponding to clients' perception about the importance and usage of micro-insurance for coping with financial risk and improving financial security.
- **Image-** This factor relates to the image of the beneficiaries as a result of financial services usage. The items correspond to the improvement in the image of the beneficiary in society and the prestige associated with the usage of the services. This factor explained 18.9 percent of the variance.
- **Individual perceptions-** This factor consisted of three items explained 14 percent of variance and a high internal consistency (Cronbach alpha>.80). The items were related to the individual perceptions of quality and anxiety associated with service usage.
- **Time**- This factor consisted of two items and related to the time constraint barrier towards using health insurance services. This factor explained 13.90 percent and had an above average internal consistency (.63).

Factor Analysis

Factor	Item	Loading	Cronbach Alpha	Variance Explained
Usefulness	For my financial risk protection, use of this micro-insurance service would be important	0.8400	0.83	23.20
	For my financial risk protection, use of this micro-insurance service would be relevant.	0.8265		
	I would be able to cope with risks better	0.7764		
	For my financial risk protection, this micro-insurance service would be useful	0.7058		
	Overall, I would be able to improve my financial security by using this micro-insurance service.	0.6750		
Image	People who get this micro-insurance service would have high profile in my community.	0.9286	0.89	18.90
	Getting this micro-insurance service would improve my image in my community.	0.8795		
	Getting this micro-insurance service would be prestigious in my community.	0.8744		
Individual Perceptions	This micro-insurance service would have poor quality*.	0.7795	0.85	14.00
	I would not be able to pay premium for this micro-insurance service*.	0.7501		
	Using this micro-insurance service would make me nervous*.	0.6682		
Time	I would not have time to get this micro-insurance service*.	0.9093	0.63	13.90
	Getting this micro-insurance service would be time consuming*.	0.9057		

Logistic Regression

Loyalty=f(usefulness, image, time constraint, personal perception)

Explanatory variables	Coefficient	Significance level	Odds ratio
Usefulness	.306	.043	1.358
Image	.231	.002	1.260
Time constraint	-.410	.039	.663
Personal perceptions	-.291	.008	.747
constant	-1.708	.117	.181

All the coefficients are statistically significant. People finding micro insurance more useful tend to be more loyal as indicated by the odds ratio of 1.358. For every one-unit increase in usefulness score, we expect a 0.306 increase in the log-odds of **loyalty**, holding all other independent variables constant.

Premium=f (usefulness, image, time constraint, personal perception)

Explanatory variables	Coefficient	Significance level	Odds ratio
Usefulness	.988	.000	2.685
Image	-.103	.167	.902
Time constraint	-.058	.679	.944
Personal perceptions	.449	.000	1.567
constant	-6.482	.000	.002

Switching=f (usefulness, image, time constraint, personal perception)

Explanatory variables	Coefficient	Significance level	Odds ratio
Usefulness	.042	.739	1.042
Image	.238	.001	1.268
Time constraint	-.101	.432	.904
Personal perceptions	.069	.469	1.071
constant	-1.250	.152	.286

To sum up, the four-factor structure can help the practitioners to identify the dominant acceptance criteria used the proposed beneficiaries. Suitable communication method and messages might be recommended to reach the target audience.

5.5 Conclusion

This chapter presents results from a primary survey on factors affecting micro-insurance uptake in Cuttack and Bhubaneswar of Orissa state. A structured questionnaire with Demographic details and items about client's acceptance of Micro-insurance services was administered to a sample of 286 beneficiaries of three different micro insurance schemes. The items were related to constructs derived from technology acceptance model, diffusion of innovation, and behavioural antecedents of services acceptance literature. Some other items generated from focus group discussions with beneficiaries and personal interviews with Micro insurance distribution intermediaries were also included. These items were analysed employing factor analysis and logistic regression. The results indicate a stable four-factor structure-usefulness, image, personal perceptions and time constraint- underlying uptake of micro insurance services. Results of logistic regression indicate different significant predictors of loyalty, price sensitivity, and switching behaviour towards micro insurance services.

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Annexure: Empirical Estimated Results

	1	2	3	4	5	6	7	8
REL1 For my financial risk protection, use of this micro-insurance service would be relevant.	0.840	0.109	0.109	-0.148	-0.050	-0.158	0.123	0.084
REL2 For my financial risk protection, use of this micro-insurance service would be important	0.836	-0.034	-0.027	-0.017	0.152	-0.066	0.012	-0.119
PUG2 I would be able to cope with risks better	0.777	0.095	0.079	-0.117	0.031	-0.106	0.091	0.117
PUG3 For my financial risk protection, this micro-insurance service would be useful	0.673	0.077	0.139	0.079	0.208	-0.167	0.052	-0.035
PUG1 Overall, I would be able to improve my financial security by using this micro-insurance service.	0.609	-0.091	0.262	-0.039	0.144	0.256	0.054	0.009
IMGE2 People who get this micro-insurance service would have high profile in my community.	0.017	0.916	-0.012	0.059	0.091	0.004	0.024	0.039
IMGE1 Getting this micro-insurance service would improve my image in my community.	0.069	0.863	0.049	-0.022	-0.027	-0.041	0.182	0.022
IMGE3 Getting this micro-insurance service would be prestigious in my community.	0.041	0.852	0.055	0.039	0.077	-0.031	0.035	0.159
SN3 People who are important to me would like my use of this micro-insurance service.	0.081	0.084	0.672	-0.067	-0.074	-0.068	0.325	-0.110
SN2 People who influence my decisions think that I should use this micro-insurance service.	0.255	-0.033	0.664	-0.042	0.048	-0.120	0.190	-0.008
COST1 I would have the money to pay premium to get this micro-insurance service.	-0.011	-0.072	0.646	0.014	0.243	-0.270	-0.077	0.170
COST2 I would be able to easily pay premium for this micro-insurance service.	0.290	0.100	0.554	-0.080	0.190	-0.229	-0.053	0.205
SN1 (Individual decision) I think micro-insurance service should be used.	0.005	0.118	0.537	-0.217	0.353	-0.063	-0.088	0.144
TIME3 I would not have time to get this micro-insurance service*.	0.002	0.053	-0.004	0.795	-0.136	0.234	-0.142	-0.108
TIME2 Getting this micro-insurance service would be time consuming*.	-0.103	-0.012	-0.060	0.787	-0.188	0.152	-0.105	-0.165
LOC3 I would not know where to get this micro-insurance service*.	-0.068	0.033	-0.132	0.663	0.060	-0.019	0.124	0.021
MOT2 My use of this micro-insurance service would be pleasant.	0.111	-0.006	0.243	-0.171	0.726	-0.037	-0.031	0.000
ANX2 I would be comfortable with using this micro-insurance service.	0.161	0.041	0.019	0.101	0.725	-0.118	0.147	0.119
QUAL1 The quality of insurance I get from this micro-insurance service would be high.	0.186	0.202	0.322	-0.209	0.476	-0.074	-0.153	-0.071
ANX1 Using this micro-insurance service would make me nervous*.	-0.095	0.116	-0.084	0.220	-0.129	0.709	-0.160	-0.006
QUAL2 This micro-insurance service would have poor quality*.	-0.035	-0.125	-0.251	-0.060	-0.115	0.695	0.056	-0.097
COST3 I would not be able to pay premium for this micro-insurance service*.	-0.215	-0.073	-0.216	0.292	0.037	0.676	0.061	0.056
RD1 I would be able to tell the results of using this micro-insurance service to other people.	0.078	0.013	0.050	0.104	-0.067	-0.008	0.761	0.170
RD2 The results of using this micro-insurance service would be clear to me.	0.167	0.331	0.182	-0.142	0.102	-0.009	0.651	0.101
PEOUG Overall, I would be able to easily use this micro-insurance service to improve my financial security.	0.105	0.081	0.025	-0.186	0.510	-0.024	0.553	0.087
SE2 I would be able to use this micro-insurance service even if I have never used a similar micro-insurance service.	0.068	0.025	0.054	-0.190	0.047	0.067	0.121	0.791
SE1 I would be able to use this micro-insurance service even if nobody is there to tell me what to do.	-0.047	0.202	0.104	-0.007	0.068	-0.133	0.157	0.789

	1	2	3	4	5	6	7
REL2 For my financial risk protection, use of this micro-insurance service would be important	0.848	-0.032	-0.027	-0.039	-0.005	-0.091	0.112
REL1 For my financial risk protection, use of this micro-insurance service would be relevant.	0.844	0.103	-0.139	-0.183	0.107	0.123	-0.065
PUG2 I would be able to cope with risks better	0.785	0.097	-0.109	-0.147	0.047	0.118	0.022
PUG3 For my financial risk protection, this micro-insurance service would be useful	0.666	0.083	0.060	-0.168	0.153	-0.017	0.215
PUG1 Overall, I would be able to improve my financial security by using this micro-insurance service.	0.579	-0.083	-0.041	0.215	0.290	0.000	0.233
IMGE2 People who get this micro-insurance service would have high profile in my community.	0.015	0.924	0.057	-0.007	-0.020	0.018	0.088
IMGE1 Getting this micro-insurance service would improve my image in my community.	0.076	0.872	-0.026	-0.021	0.110	0.093	-0.055
IMGE3 Getting this micro-insurance service would be prestigious in my community.	0.034	0.851	0.045	-0.072	0.015	0.132	0.086
TIME3 I would not have time to get this micro-insurance service*.	-0.003	0.034	0.823	0.164	-0.052	-0.162	-0.081
TIME2 Getting this micro-insurance service would be time consuming*.	-0.108	-0.021	0.807	0.110	-0.064	-0.213	-0.148
LOC3 I would not know where to get this micro-insurance service*.	-0.055	0.030	0.641	0.057	-0.039	0.133	0.017
QUAL2 This micro-insurance service would have poor quality*.	-0.040	-0.108	-0.056	0.767	-0.100	-0.058	-0.085
COST3 I would not be able to pay premium for this micro-insurance service*.	-0.201	-0.057	0.303	0.695	-0.142	0.084	0.049
ANX1 Using this micro-insurance service would make me nervous*.	-0.123	0.096	0.282	0.598	-0.105	-0.099	-0.082
SN3 People who are important to me would like my use of this micro-insurance service.	0.072	0.109	-0.087	-0.092	0.758	0.001	0.025
SN2 People who influence my decisions think that I should use this micro-insurance service.	0.234	-0.032	-0.041	-0.217	0.657	0.057	0.135
COST1 I would have the money to pay premium to get this micro-insurance service.	-0.064	-0.066	-0.013	-0.387	0.492	0.046	0.450
COST2 I would be able to easily pay premium for this micro-insurance service.	0.246	0.092	-0.074	-0.385	0.398	0.094	0.317
SE1 I would be able to use this micro-insurance service even if nobody is there to tell me what to do.	-0.068	0.197	-0.001	-0.224	-0.026	0.746	0.147
SE2 I would be able to use this micro-insurance service even if I have never used a similar micro-insurance service.	0.022	0.033	-0.195	-0.002	-0.043	0.700	0.204
RD1 I would be able to tell the results of using this micro-insurance service to other people.	0.142	0.030	0.092	0.120	0.346	0.603	-0.270
RD2 The results of using this micro-insurance service would be clear to me.	0.223	0.371	-0.158	0.059	0.399	0.408	-0.046
MOT2 My use of this micro-insurance service would be pleasant.	0.140	0.024	-0.206	-0.066	0.131	-0.017	0.713
ANX2 I would be comfortable with using this micro-insurance service.	0.190	0.090	0.027	-0.032	0.033	0.181	0.704

	1	2	3	4	5	6	7
REL2 For my financial risk protection, use of this micro-insurance service would be important	0.851	-0.036	-0.025	-0.035	-0.099	0.110	-0.021
REL1 For my financial risk protection, use of this micro-insurance service would be relevant.	0.845	0.095	-0.134	-0.183	0.111	-0.060	0.096
PUG2 I would be able to cope with risks better	0.784	0.093	-0.108	-0.137	0.112	0.023	0.052
PUG3 For my financial risk protection, this micro-insurance service would be useful	0.683	0.085	0.050	-0.162	-0.013	0.198	0.123
PUG1 Overall, I would be able to improve my financial security by using this micro-insurance service.	0.595	-0.068	-0.073	0.259	0.014	0.179	0.295
IMGE2 People who get this micro-insurance service would have high profile in my community.	0.019	0.927	0.053	-0.001	0.023	0.086	-0.010
IMGE1 Getting this micro-insurance service would improve my image in my community.	0.080	0.875	-0.025	-0.021	0.090	-0.048	0.122
IMGE3 Getting this micro-insurance service would be prestigious in my community.	0.054	0.860	0.027	-0.049	0.143	0.053	-0.007
TIME3 I would not have time to get this micro-insurance service*.	-0.004	0.033	0.827	0.157	-0.164	-0.072	-0.066
TIME2 Getting this micro-insurance service would be time consuming*.	-0.116	-0.023	0.816	0.092	-0.213	-0.125	-0.057
LOC3 I would not know where to get this micro-insurance service*.	-0.066	0.034	0.637	0.071	0.134	0.029	0.002
QUAL2 This micro-insurance service would have poor quality*.	-0.041	-0.101	-0.060	0.789	-0.061	-0.112	-0.082
COST3 I would not be able to pay premium for this micro-insurance service*.	-0.206	-0.055	0.302	0.701	0.076	0.042	-0.124
ANX1 Using this micro-insurance service would make me nervous*.	-0.108	0.101	0.264	0.620	-0.093	-0.134	-0.140
SE1 I would be able to use this micro-insurance service even if nobody is there to tell me what to do.	-0.041	0.211	-0.027	-0.185	0.771	0.094	-0.035
SE2 I would be able to use this micro-insurance service even if I have never used a similar micro-insurance service.	0.041	0.044	-0.218	0.036	0.720	0.155	-0.035
RD1 I would be able to tell the results of using this micro-insurance service to other people.	0.128	0.026	0.122	0.086	0.578	-0.204	0.392
ANX2 I would be comfortable with using this micro-insurance service.	0.169	0.074	0.050	-0.076	0.163	0.777	0.037
MOT2 My use of this micro-insurance service would be pleasant.	0.122	0.013	-0.193	-0.100	-0.027	0.770	0.138
SN3 People who are important to me would like my use of this micro-insurance service.	0.067	0.116	-0.083	-0.122	-0.001	0.065	0.810
SN2 People who influence my decisions think that I should use this micro-insurance service.	0.240	-0.028	-0.047	-0.234	0.058	0.153	0.654

Rotated Component Matrixa

	Component			
	1	2	3	4
REL2 For my financial risk protection, use of this micro-insurance service would be important	0.8400	-0.0469	-0.0617	-0.0002
REL1 For my financial risk protection, use of this micro-insurance service would be relevant.	0.8265	0.1088	-0.2155	-0.0954
PUG2 I would be able to cope with risks better	0.7764	0.1075	-0.1678	-0.0714
PUG3 For my financial risk protection, this micro-insurance service would be useful	0.7058	0.0903	-0.1885	0.0226
PUG1 Overall, I would be able to improve my financial security by using this micro-insurance service.	0.6750	-0.0540	0.1945	-0.1239
IMGE2 People who get this micro-insurance service would have high profile in my community.	0.0151	0.9286	-0.0086	0.0476
IMGE1 Getting this micro-insurance service would improve my image in my community.	0.0806	0.8795	-0.0524	-0.0259
IMGE3 Getting this micro-insurance service would be prestigious in my community.	0.0497	0.8744	-0.0317	-0.0233
QUAL2 This micro-insurance service would have poor quality*.	-0.0362	-0.1189	0.7795	-0.0465
COST3 I would not be able to pay premium for this micro-insurance service*.	-0.1810	-0.0295	0.7501	0.1778
ANX1 Using this micro-insurance service would make me nervous*.	-0.1080	0.0828	0.6682	0.3126
TIME3 I would not have time to get this micro-insurance service*.	-0.0230	0.0262	0.1839	0.9093
TIME2 Getting this micro-insurance service would be time consuming*.	-0.1374	-0.0390	0.1250	0.9057

Factor	Item	Loading	Cronbach Alpha	Variance Explained
Usefulness	For my financial risk protection, use of this micro-insurance service would be important	0.8400	0.83	23.20
	For my financial risk protection, use of this micro-insurance service would be relevant.	0.8265		
	I would be able to cope with risks better	0.7764		
	For my financial risk protection, this micro-insurance service would be useful	0.7058		
	Overall, I would be able to improve my financial security by using this micro-insurance service.	0.6750		
Image	People who get this micro-insurance service would have high profile in my community.	0.9286	0.89	18.90
	Getting this micro-insurance service would improve my image in my community.	0.8795		
	Getting this micro-insurance service would be prestigious in my community.	0.8744		
Individual Perceptions	This micro-insurance service would have poor quality*.	0.7795	0.85	14.00
	I would not be able to pay premium for this micro-insurance service*.	0.7501		
	Using this micro-insurance service would make me nervous*.	0.6682		
Time	I would not have time to get this micro-insurance service*.	0.9093	0.63	13.90
	Getting this micro-insurance service would be time consuming*.	0.9057		

Chapter VI
Concluding Summary and Major Recommendations

6.1 Major Findings and Recommendations

In this report, we examined the impact of the recent policy initiatives, including Jan Suraksha Schemes, on insurance consumption and penetration in India. The main objectives were: (1) To review the progress & performance of the Indian Insurance sector; (2) To discuss the recent policy initiatives, say Jan Dhan to Jan Suraksha schemes, and its impact on the insurance consumption in India; (3) To examine the impact on the banking sector due to the sale of insurance policies (including Jan Suraksha Schemes) through bank branches, and (4) To find out the factors that affect the insurance consumption in India. Also, the reasons for the low insurance penetration is accessed.

From the review of the growth and performance of the Indian insurance industry, we conclude that the sector has moved towards a more competitive market from a pure monopoly, with the participation of private players. In the post-reform period (2000-01 to 2016-17), the insurance sector has seen expansion in every sphere, including customer base, product innovation, delivery channels etc, due to increased competition among the players. Further, the health insurance business segments in general insurance have emerged as a new business trend, which has changed the structure of non-life business in the country. At present, the health insurance business segment holds around 28% of the market share in the industry. Apart from the success milestones, the insurance companies are still struggling with the certain issues like capital, pricing of the product, customer service, and profitability. In addition to the sudden regulatory changes in the year 2010, the introduction of GST and modification in life table etc has added additional burden to the insurance companies.

Despite the concentrated efforts by Government and IRDAI, the insurance penetration and density in India is still languishing at a very low level compared to the peer economics and also with the world average. To increase insurance penetration, Government has launched the 'Jan Suraksha Scheme' to provide insurance facility to the poor people at a nominal price. Before to this, Government also launched the PMJDY scheme to include all the unbanked households into the banking channel. Within a period of less than 4-years, banks have opened more than 31 crore of Jan Dhan accounts and enrolled more than 25 crore under the Jan Suraksha schemes (including APY). Thus, both the banks and insurance companies brought smiles to the faces of

the crores of poor families, who have not imagined to have a bank account/insurance policy in their life. Further, to fund these Jan Dhan accounts, Government used the Jan Dhan-Aadhaar-Mobile (JAM) trinity to transfer all the subsidy under different schemes, directly to the beneficiary accounts. At present, there are 432 schemes enrolled in the Direct Benefit Transfer (DBT) programme of the Government of India and cumulatively around Rs 3.5 lakh crore has been transferred into the beneficiaries account. This has helped the Government to stop leakages in the system and also helped the beneficiaries to get the money into their account without any human interferences. Additionally, both the schemes have created the banking awareness and saving habits of the people. As of 04 April 2018, around Rs 79,012 crore of deposits are lying in the Jan Dhan accounts, which is around 6.7%[10] of the total demand deposits of the banking system.

The above discussed policy initiatives taken by Government and IRDAI aimed to increase the insurance penetration in the country are mostly supply driven - supply of insurance policies to the people at their doorstep. So, it is the time to introspect, why the demand for insurance has not been effective as expected, despite the improved economic conditions of the people. To find out the reasons we have conducted a primary survey to know the awareness among the people towards insurance, both from supply and demand side. The supply-side survey results indicate that almost all the bank branches are selling insurance policies, including Jan Suraksha schemes, with an aim to provide all the financial products under one roof and also to increase bank's non-interest income. However, the pressure to sell insurance from the management should be stopped, as it creates mis-selling.

The survey found that nobody really demands insurance, though they have the knowledge of insurance. It has always remained a push product, however, after the introduction of Jan Suraksha schemes, the customers are demanding for the Jan Suraksha policies. The demand survey of customers also indicates the same result that there has been an increase in the level of awareness about insurance and life insurance policies among the buyers. While, there is very little awareness about home insurance, crop insurance, and cattle/livestock insurance. The households who consider insurance as a compensation for loss of life has gone up considerably. The survey also found that more than 50% of the bankers prefer to recommend the buyer to

[10] As on 16 March 2018, the total demand deposits of Scheduled Commercial Banks (including RRBs) is Rs 11,84,398 crore; Source: WSS, RBI https://www.rbi.org.in/Scripts/WSSView.aspx?Id=22101

buy Jan Suraksha scheme over the similar type of policies of other companies due to the affordability.

The managers have a view that, (i) the sum assured should be higher at the same premium at least for another 2/3 year; (ii) Government should make it compulsory with the customers who get enrolled under different subsidy schemes like MGNREGA, Gas subsidy etc; (iii) Schemes should have online buying facility in all the banks and insurance companies websites; (iv) long-term policy facility of say 3 years and 5 years; (iv) the policy certificate paper need to mailed to customer mail id; (v) compulsory APY enrolment for all the unorganized workers and also for the no-frills account holders. Further, both supply and demand side survey results have a common view that a need to publicize the consequences of uneven event happens to the bread earner of the family. In fact, people believe that Honourable prime minister should address the issue through the *'Mann Ki Baat'* programme. After all, in every theatre, there should be the first promotion about insurance like smoking is injurious to health, under the social initiatives by IRDAI.

Though more than 80% people have information about insurance but a very few have any type of insurance policy. The reasons given by the uninsured households for not buying life insurance policies are that the insurance products are too expensive and households do not see them as important. However, this perception of the uninsured households about life insurance has declined over the years.

To find out the factors that affect the insurance consumption in India, in the primary survey indicates that most of respondents believe that income, savings, and return are the most important factor to buy insurance. Thus, both from the estimated model and primary survey it may be concluded that income level, savings and return on investment plays a vital role in buying insurance. Further, the study also conducted a survey to find out the factors that are affecting the micro-insurance uptake in Cuttack and Bhubaneswar of Odisha. The results indicate a stable four-factor structure-usefulness, image, personal perceptions and time constraint- underlying uptake of micro insurance services. Results of logistic regression indicate different significant predictors of loyalty, price sensitivity, and switching behaviour towards micro insurance services.

Issues in the Schemes and Policy Suggestion

Apart from the success, the schemes have various issues. Some of these are:

a. Jan Dhan to Jan Suraksha

- There is an inbuilt accident insurance of Rs 2 lakh with the Jan Dhan Accounts. However, there is no clarity about who will foot the bills for the insurance premium and other costs. If all the targeted 31 crore opened PMJDY a/cs are covered under insurance, then the total premiums for the life insurance coverage would be around Rs. 300 crore.
- Under Jan Suraksha schemes, the low premiums may pose a challenge to effective claim servicing. Claims settlement and post-policy service handling are expected to face issues. The scheme's premium was kept low due to the assumption that there would be large volumes. In 2016-17, the claims-to-premium ratio for PMJJBY hit an unsustainable level of 121% and is at 170% PMSBY, as compared to 40-45% claim ratio for usual personal-accident and term life covers.
- Under the APY, the subscriber would get the benefit after the completion of 60-years. While there is no clarity about taking loans from the corpus in case of medical emergency of the subscriber.

b. PMFBY & Crop Insurance

In our primary survey, we find some of the suggestion for better management of crop insurance. Some of these are outlined below:

- ***Coverage of crops:*** PMFBY cover mainly cover 3 type of crops, namely food crops (cereals, Millets, & Pulses), Oilseeds, annual commercial/horticulture crops. These crops cover only 30% of the total crop loans given by banks. So, we expect Government should cover all types of crops under PMFBY, which will help banks to manage the risks.
- ***Timely Notification:*** As per practice, States notify the T&C in August for Kharif Crops and in December for Rabi Crops. We expect Government should notify the scheme before the start of the sowing season, i.e. in Mar/Apr for Kharif and Sep/Oct for Rabi crops
- ***Timely and Centralised Payment of Claims:*** Usually, claims payments are made with a lag of around 1 year. This has made a number of A/Cs to NPA and farmers are also not able to get any funds for the next sowing session. We suggest Government should initiate the payment through DBT and made the payment before the next crop cycle starts

- ***Transparent Crop Cutting Experiment (CCE):*** There is a need of use of technology like remote sensing, drone etc, to estimate the yield of losses, without any discrimination, as a number of real distressed farmers are not getting the benefits of insurance
- ***Need to Increase Awareness:*** A survey by ASSOCHAM-Sky met Weather joint study (2016) reveals that at the all-India level, only 19% of farmer reported ever having insured their crops. A very large proportion of 81% was found to be unaware of the practice of crop insurance. Of the uninsured, 46% were found to be aware but not interested while 24% said that the facility was not available to them. So, there is a need to increase the awareness about crop insurance to all the farmers,

In addition to the above suggestion, some banker has a view about the input subsidy and tenant farmers. The suggestions made by bankers are as follows:

- ***Provision of Input Subsidy to Tenant Farmer:*** Around 70% of the farmland is being cultivated by tenant farmers. They are not getting any benefit, as they not the owner of the land. The Government in the budget introduced the 'Land Lease Certificate' for the tenant farmer. This will help the tenant farmer to get all the benefits available to the land owner. There is also a need to protect rights of the landlord and incentivize him to enable better registration of tenant farmer. One of the main reasons for lack of registration is the fear of landlords that they will lose control. This is one of the reasons why only 30% of Agri loans are covered by banks as tenant farmers can't produce land documents. This has remained a big gap in the system so it needs to be addressed by all stakeholders.
- ***Market Determined Price for the Input Subsidy:*** The amount of input subsidy given for seeds is much lower than the market rates. So, we expect Government should give the subsidy based on the market rates prevailing at that time only or through DBT as in case of LPG Cylinders.
- ***Need for timely availability of seeds at Government outlets:*** Farmers has been facing the problem of availability of seeds during sowing time that needs to be addressed

We believe, an integrated database (using the Jan Dhan, Aadhaar, Mobile platform) can ensure that the area insured for a crop does not exceed its gross cropped area, by preventing multiple loans being taken for the same land. The growth of weather-based insurance and the entry of more players can provide checks and balances, but the insurance regulator

should prepare for fresh challenges. To reduce fraudulent claims, a robust no-claims bonus will help.

The future of India's insurance sector looks bright, as the country has a favourable demographics, growing awareness, and investment friendly Government. The Government and IRDAI are constantly looking to increase awareness among the people, liberalising policies to attract foreign investment and tax benefits to customer, to give businesses the best possible environment to grow. It is estimated by Boston Consulting Group (BCG) that India's insurable population may touch 75 crore by 2020, with life expectancy at 74 years. In addition, life insurance is projected to comprise 35% of total savings by the end of this decade from 15% in 2017-18. Improving consumer sentiment and financial market conditions will also support demand for unit-linked and pension products in India.

Further, the Government's initiative towards 'micro-insurance' and 'health insurance' is another area of business opportunities. In a study of World Bank on *'Government-Sponsored Health Insurance in India: Are You Covered?'* indicate that by 2025, almost half of the country's population would be covered under the health insurance and the spending through health insurance is likely to reach around 10% of total health spending of the country.

Given the PMJDY progress, this may push the beneficiaries to avail other financial products like life insurance, personal accident insurance, and Atal pension scheme. So, there is a huge opportunity to provide the insurance facilities to the PMJDY accounts. Further, Government may extend the PMFBY scheme to protect their incomes against price fluctuations, which may help the affected farmer's capacity to invest in advanced crop varieties and impede capital formation in the sector. This will help to spread the micro-insurance business in the country. Finally, to predict the future of Indian insurers turning global players, this would be too early to address, as Indian industry holds only 1.68% (Sigma 3/2017) of the global market. We expect the industry will consolidate its position in the domestic market before venturing abroad.

6.2 Limitations of the Study and Scope for Future Research

In economic theory, demand for any product not only depends on the consumption demand but also on the supply side factor. So, insurance consumption is not an exception. Insurance companies need human and information resources to effectively measure the pricing and reserve requirements for products as well as adequate investment opportunities in financial markets. Adequate protection of property rights and effective enforcement of contracts also facilitate the investment function of life insurers. These supply factors are expected to affect

the costs of life insurance products. While to analyse the supply side factors of the insurers is beyond the scope of this study. This is reasonable to assume that when less insurance is supplied the price of insurance will be higher and the amount consumed will be lower.

Although the current study has focused only on the demand for life insurance and distribution of insurance polices, a variety of factors affect the supply of insurance, which would be expected to affect national consumption. These include, but are not limited to, Governmental regulations regarding solvency, trade barriers, the availability of capital, technical expertise, tax policy and an infrastructure that allows for the marketing and servicing of life insurance policies. As more data become available, an analysis of insurance consumption in a wider sample would likely lead to a greater understanding of insurance demand.

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