CHAPTER - 8
CONCLUSION & SUGGESTIONS

CONCLUSION

The insurance industry in India has changed rapidly in the challenging economic environment throughout the world. In the current scenario, Indian insurance companies have become competitive in nature and are providing appropriate distribution channels to get the maximum benefit and serve customers in manifold ways.

Indian Insurance industry has big opportunity to expand, given the large population and untapped potential. The insurance market in India has witnessed dynamic changes including entry of a number of global insurers. Most of the private insurance companies are joint ventures with recognized foreign institutions across the globe. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors.

The Indian Insurance Industry has undergone several changes in trends and policies in the year 2010. The US$ 41 billion industry is considered the fifth largest life insurance market, and is growing at a rapid pace of 32-34% annually, according to
the Life Insurance Council. State-owned Life Insurance Corporation (LIC) of India has recorded about 37% growth in its new business premium to US$ 15.1 billion during April to January FY 2010, the data from IRDA stated. Overall, 23 life insurers in the country collectively mopped US$ 21.35 million as new first year premium during the period, a 26% increase from US$ 17 billion during April-January 2009-2010.

Out of this, the 22 private life insurers together accounted for US$ 6.26 billion worth of new business in April-January 2010-11, compared to US$ 5.91 billion in the year ago period, a growth of about 6%. Among the private life insurance players, SBI Life saw its premium collections from new business grew by 9% to US$ 1.1 billion during the period, while ICICI Life's premium collections from new businesses grew to US$ 1.15 billion April-January 2010-11, from US$ 964 million during the same period last year.

During the 1997-98 LIC sum assured through policies 63927.83 Crore Rs. In 1998-99 LIC sum assured 75606.26 Crore Rs. In 1999-00 LIC sum assured 91490.94 Crore Rs. In 2000-01 LIC sum assured 124950.63 Crore Rs. In 2001-02 LIC sum assured 192784.96 Crore Rs. We can see that LIC gets success in new business.
In 1997-98 LIC's number of polices are 850.03 in lakh. In 1998-99 LIC'S number of polices are 917.26 in lakh. In 1999-00 LIC's number of polices are 1013.89 in lakh. In 2000-01 LIC's numbers of policies are 1131.11 in lakh. In 2001-02 LIC's number of policies 1258.76 in lakh. We can see that LIC's position is very good. Numbers of policies are increased.

LIC, set out with clear objectives, grew steadily and spread the message of insurance to the farthest corners of the nation. From a new business of Rs. 329 crore sum assured under 9.5 lakhs policies procured during the period of 16 months from 1.9.56 to 31.12.57, LIC progressed to the new business of Rs. 91,213 crore under 170 lakhs policies in the year ending on 31st March, 2000. The first premium received reached Rs. 4,959 crore compared to Rs. 13 crore in 1957. Its rural business was significant, representing 16.7% of the total number of policies. The bonus rates were in the rising curve. As a learning organization, it took periodical steps to reorganize its functions and, by empowering the staff, could take the range of services nearest to the policy holders.

The vast premium income mobilized by LIC helped the nation in economic development, especially in building up infrastructure. In 1999-2000, its accumulated investment in
infrastructure was Rs. 1,17,888 crore, helping the country in improving the quality of the people at large through the enhancement of basic amenities like potable water, drainage, housing, electrification and transport.

LIC has made notable contributions to the development of the equity market. It has participated in the establishment of institutions like NSC, IDBI, UTI and NIA. LIC has taken advantage of information and technology and initiated measures for the convenience of the policy holders.

The other index, insurance penetration, is the ratio of annual gross insurance premium to the gross domestic product (GDP). The country's life insurance premium was mere a 1.39% and for non-life, it was still lower, at 0.6 per cent. The comparative figures for other countries are: Malaysia (2.16 and 1.72) South Korea (8.39 and 2.89) South Africa (13.92 and 2.62) and China (1.02 and 0.61). In 1999, in the global insurance market, the US accounted for one-third of the total premium and Japan had 21.29 per cent share. India could account for a mere 0.36 per cent only. So, the insurance industry, even in the nationalized set up, could not make the desired progress in keeping pace with international standards.
Insurance companies not only provide risk cover to infrastructure projects, they also contribute long-term funds. In fact, insurance companies are an ideal source of long term debt and equity for infrastructure projects. With long term liability, they get a good asset-liability match by investing their funds in such projects. IRDA regulations require insurance companies to invest not less than 15 percent of their funds in infrastructure and social sectors. International Insurance companies also invest their funds in such projects.

The Life Insurance Corporation of India has been a nation-builder since its formation in 1956. True to the objectives of nationalization, the LIC has mobilised the funds invested by the people in life insurance for the benefit of the community at large. The LIC has, over the years, been investing a major part of its funds primarily in the socially oriented sector. As at 31st March, 2004, 83.18% of its total investments were in the public sector, 0.63% were in the co-operative sector and 16.19% in the private sector.

The total funds, so invested for the benefit of the community at large have accumulated to Rs.321753.53 crore as at 31st March, 2004 after meeting the liabilities towards the claims,
management and other expenses, registering an accretion of Rs.48384.41 crore during the year 2003-2004.

Under the Corporation's scheme of providing financial assistance for piped water supply and drainage schemes, 63 urban/local bodies in 5 States and the Union Territory of Chandigarh have benefited during the year. In addition, 1448 Schemes in 2 states have also received financial assistance from the Corporation for rural piped water supply schemes during the year. The investment in this sector up to 31st March, 2004 was Rs.7111 crore. (Including Investment in Irrigation).

The Corporation also provides financial assistance to state electricity boards/power corporations for power generation projects by way of loans/subscriptions to their bonds. The Corporation's investment of Rs.21217 crore up to 31st March, 2004 in the power sector makes the Corporation the largest single contributing factor in the progress of electrification schemes in the country.

The Corporation has also been extending financial assistance to state level apex co-operative housing finance societies, the benefits of which are passed on to individuals through primary societies. Besides, the Corporation is providing finances by way
of subscribing to bonds of housing finance institutions like Housing Development Finance Corporation, Housing and Urban Development Corporation, National Housing Bank etc. The total contribution of the Corporation up to 31st March, 2004 to housing development activities by way of loans/ bonds to state governments, state-level apex societies, HDFC, HUDCO, NHB, LIC HFL etc. and loans under mortgage housing schemes amounted to Rs.20694 crore.

The Corporation has been assisting development of road transport by providing financial assistance to State Road Transport Corporations for augmenting their fleet of buses. The total investment in this sector up to 31st March, 2004 was Rs.1373 crore.

With largest number of life insurance policies in force in the world, Insurance happens to be a mega opportunity in India. It’s a business growing at the rate of 15-20 per cent annually and presently is of the order of Rs 450 billion. Together with banking services, it adds about 7 per cent to the country’s GDP. Gross premium collection is nearly 2 per cent of GDP and funds available with LIC for investments are 8 per cent of GDP.
A well-developed and evolved insurance sector is needed for economic development as it provides long term funds for infrastructure development and at the same time strengthens the risk taking ability. It is estimated that over the next ten years India would require investments of the order of one trillion US dollar. The Insurance sector, to some extent, can enable investments in infrastructure development to sustain economic growth of the country.

Insurance penetration has witnessed commendable increase from 1.77 in the year 2000 to 4 in the year 2007 in life insurance sector. Non-life penetration has increased from 0.55 percent to 0.60 percent during this period. Insurance industry has witnessed a business growth of more than 5 times from Rs. 44705 crore in the year 2000-01 to Rs. 253272 crore in the year 2008-09. Assets under management of the sector has grown more than 3 fold in matter of 8 years from Rs. 218471.63 crore in 2000-01 to Rs.818321.69 crore in 2007-08.

In the nine years since the Insurance sector was opened up in the year 2000, Insurance industry has witnessed a business growth of more than five times, from Rs. 44705 crore in 2000-01 to Rs. 253272 crore in 2008-09. Ever since, there has been paradigm shift in the meaning and relevance of 'Insurance' to
the common man. This growth process in the sector has pioneered abundant opportunities in terms of employee generation. In this scenario, Chartered Accountants (CAs) are thrust with responsibility to authenticate various information submitted to the Regulator by an insurance company. While insurance companies need experts to present their performance meaningfully to the public, stakeholders need professional advices for a meaningful interpretation of the same. Role of CAs, therefore, comes to the forefront in such a scenario.

From the given table, CAGR has been calculated on different periodicals, during 2000-05 total amount of insured as well as assessable deposits was 14.51, 18.57 respectively. Again during 2005-10 it was 21.55 as well as 23.56. while it was 16.63, 20.04 respectively during 2010. Which represents fluctuation of insured deposits as well as assessable deposits.

From the given table, CAGR has been calculated on different periodicals, during 2000-05 Surplus Balance, Investment Reserves, Total Liabilities Assets as well as Investments in central Government Securities was 20.42, 12.64, 18.75, 16.96 respectively. Again during 2005-10 it was 20.42, 20.66, 20.85, 20.03 respectively. But during the decade it was 20.83, 24.92,
21.01, 18.17 respectively during 2010. Which represents fluctuation of insured deposits as well as assessable deposits.

In fact infrastructure investments are ideal for asset-liability matching for life insurance companies given their long term liability profile. According to preliminary estimates published by the Reserve Bank of India, contribution of insurance funds to financial savings was 14.2 per cent in 2005-06, viz., 2.4 per cent of the GDP at current market prices. Development of the insurance sector is thus necessary to support continued economic transformation. Social security and pension reforms too benefit from a mature insurance industry.

The insurance sector in India, which was opened up to private participation in the year 1999, has completed over seven years in a liberalized environment. With an average annual growth of 37 per cent in the first year premium in the life segment and 15.72 per cent growth in the nonlife segment, together with the largest number of life insurance policies in force, the potential of the Indian insurance industry is still large. Life insurance penetration in India was less than 1 per cent till 1990-91. During the 1990s, it was between 1 and 2 per cent and from 2001 it was over 2 per cent. In 2005 it had increased to 2.53 per cent.
Insurance agents numbering over 6.24 lakhs in rural areas. In the financial year Policies sold in rural areas (2004-05) - N.o. of policies - 55 lakhs, Sum assured 46,000 crores, (2005-06) - N.o. of policies - 65 lakhs, Sum assured 66,000 crores, (2006-07) - N.o. of policies - 84 lakhs, Sum assured 99,500 crores, (2007-08) - N.o. of policies - 109 lakhs, Sum assured 1,38,000 crores, (2008-09) - N.o. of policies - 133 lakhs, Sum assured 1,98,000 crores, (2009-10) - N.o. of policies - 158 lakhs, Sum assured 2,14,000 crores, Social security N.o. of lives covered 2009-10 17.4 lakhs 2004-05 42.1 lakhs.

Life insurance industry provides increased employment opportunities. Employees in insurance sector as on 31st March, 2005 is around 2 lakhs. Many agents depend on insurance for their livelihood. N.o. of agents on 31st March 2004 - 15.59 lakhs. Brokers, corporate agents, training establishments provide extra employment opportunities. Many of these openings are in rural sectors.

The researcher identifies the links between insurance, financial sector performance and growth in substantial detail, helping define the insurance - economic growth relationship and supporting the policy conclusions. The thrust of these links is that insurers encourage a greater efficiency and depth in the
financial sector, by complementing, competing, and otherwise improving the services offered by other financial institutions.

- With largest number of life insurance policies in force in the world, Insurance happens to be a mega opportunity in India. It’s a business growing at the rate of 15-20 per cent annually and presently is of the order of Rs 450 billion. Together with banking services, it adds about 7 per cent to the country’s GDP. Gross premium collection is nearly 2 per cent of GDP and funds available with LIC for investments are 8 per cent of GDP.

- Yet, nearly 80 per cent of Indian population is without life insurance cover while health insurance and non-life insurance continues to be below international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. This itself is an indicator that growth potential for the insurance sector is immense.

- India ranks 23rd in the world with total insurance business (premiums) of a little over $7.2 billions (non-Life: over $2 billions, 32nd rank; life: over $5 billions, 20th rank). The spread and reach of insurance remains, even after so many years of nationalisation, skewed and urban-oriented. India has an
insurance density, which is premium $ per capita of only 7.6 (non-life: 2.2; life: 5.6), and ranks 82nd in the world. Insurance penetration, which is premium as share of GDP (per cent), in India is a measly 1.95 (non-Life: 0.56; life: 1.39), and ranks 51st in the world.

All over the world, regulation of the insurance sector has been taking new dimensions ever since the process of globalisation begun. It is being increasingly felt that a balanced and sustained growth of the insurance sector is necessary for the sustenance of the globalisation process. Developed countries have had a long tradition of insurance supervision and have come to appreciate the benefits of a sound supervisory regime. There, the paradigm of insurance regulation has shifted to more proactive supervision, monitoring, and facilitation of the business.

India had 16% of the world population, but only 1.68% of the world life insurance market in 2006. India is also far behind world averages in terms of insurance penetration, and insurance density. A mere 20% of the insurable population aged 20 to 60 years is currently covered by life insurance. The average number of policies (life/ non-life) held by per Indian
consumer is just 1.33 as against 5.2 policies per consumer in mature markets.

With life insurance premiums being just 2.5% of GDP and general insurance premiums being 0.65% of GDP, the opportunities in the Indian market place is immense. The next five years will be challenging but those that can build scale and market share will survive and prosper.

In life insurance business, India ranked 9th among the 156 countries for which data are published by Swiss Re. During 2009, the life insurance premium in India grew by 10.1 per cent (inflation adjusted). However, during the same period, the global life insurance premium had contracted by 2 per cent. The share of Indian life insurance sector in global market was 2.45 per cent during 2009, as against 1.98 per cent in 2008.

The non-life insurance sector witnessed a marginal growth of 1.6 per cent during 2009. However, its performance was better when compared to global non-life premium, which contracted by 0.1 per cent during the same period. The share of Indian non-life insurance premium in global non-life insurance premium remained very low at 0.46 per cent and India ranked 26th in global non-life insurance premium.
The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to USD 47.7 in 2009. Similarly, insurance penetration of life sector had gone up from 2.15 per cent in 2001 to 4.60 per cent in 2009.

The penetration of non-life insurance sector in the country remains near-constant for the last 9 years at around 0.60 per cent. However, there is a marginal increase in density, which has increased from USD 2.4 in 2001 to USD 6.7 in 2009.

The non-life insurance industry underwrote a total premium of 34,620 crore in 2009-10 as against 30,352 crore in 2008-09 (Table 6.2) registering a growth of 14.06 per cent as against an increase of 9.09 per cent recorded in the previous year. The public sector insurers exhibited an impressive growth in 2009-10 at 14.49 per cent; more than twice the previous year’s growth rate of 7.12 per cent. In contrast, the private non-life insurers registered a growth of 13.44 per cent, which is only marginally higher than 12.09 per cent achieved during the previous year. The figures reflect a comparative hardening of rates in the industry.

The premium underwritten by 13 private sector insurers in 2009-10 was 13,977 crore as against 12,321 crore in 2008-09. ICICI Lombard continued to be the largest private sector non-
life insurance company, which accounted for a market share of 9.52 per cent, although its market share declined from 11.21 per cent in 2008-09. Bajaj Allianz, the second largest private sector non-life insurance company, which underwrote a total premium of 2,482 crore, also saw its market share depleting from 8.63 per cent in 2008-09 to 7.17 per cent during the year under review. Of the 13 private insurers, 11 reported an increase in premium underwritten (9 out of 10 in 2008-09). Two of the non-life insurers had started operations in 2009-10.

In the case of public sector non-life insurers, all four companies expanded their business with an increase in their respective premium collections. While the market shares of Oriental Insurance and United India increased in 2009-10 over 2008-09, the shares declined in case of National and New India. United India underwrote a premium of 5,239 crore in 2009-10 as against 4,278 crore in the previous year, which helped to improve its market share to 15.13 per cent in 2009-10 from 14.09 per cent in the previous year. It reported a growth of 22.47 per cent, which is higher than the industry average for 2009-10. New India Assurance with an insurance premium of 6,043 crore remains the largest general insurance company in India with market share of 17.45 per cent.
In August 2005, the private players in the life insurance business have increased their market share to 23.93 per cent. Among them ICICI prudential is ranked first in capturing the market followed by Bajaj Allianz and HDFC Standard. In the General Insurance sector the private players have captured 27.35 per cent. Among them ICICI-Lombard is ranked first, followed by Bajaj Allianz and IFFCO-Tokio.

The healthy competition in the sector enabled the State owned insurers of our mother country to reduce its market share to 76.07 per cent and 72.65 percent in life and non-life business respectively. Moreover, private insurers have planned to increase their market share in the next five years. The public insurers have to enrich its approach to withhold its share.

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In 1997-98, the scope of the socially oriented sector has also been widened to accommodate infrastructure projects both in
the public and the private sectors pertaining to ports, railways (BOLT Projects), roads, highways. The total investment in this sector up to 31st March, 2004 was Rs. 1272 crore.

The Corporation also helps to boost the industrial growth in the country. The Corporation's assistance to state level finance corporations and all India finance corporations like IDBI, IFCI, ICICI Bank etc. by way of subscription to bonds/ debentures issued by such institutions, also indirectly helps development of small scale and medium scale industries. The Corporation also makes investment in the corporate sector in the form of long/ medium term loans to companies/ corporations. The total investment mode by way of loans as at 31st March, 2004 was Rs.6647 crore and by way of subscription to shares/ debentures as at 31st March, 2004 was Rs.88570 crore. All these make a distinct contribution towards growth in industrialisation and generation of skilled and unskilled employment opportunities in the country.

After passing out more than one decade of economic reforms all sectors : Social, Infrastructure, Power, Railway, Telecom, Municipality, Housing as well as Water Supply has been put on top priority which again represent the growth and development of Indian economy.
The total funds, so invested for the benefit of the community at large accumulated to 10,95,841.34 crore as on 31st March 2010. The investment of the Corporation's funds is governed by Section 27A of the Insurance Act, 1938, subsequent guidelines/instructions issued there under from time to time by the Government of India and the IRDA by way of regulations.

Investment portfolio of LIC Pension Fund is basically debt oriented, 85% are to be invested in debt instruments, up to 15% in equity and/or equity related mutual funds schemes and up to 5% Money Market Instruments. The net asset value of Central Government scheme as on 31st March 2010 was Rs. 12.3524 and that of State Government scheme was Rs. 10.6027. Annualized returns for Central Government funds was 11.7620% and that of State Government funds was 7.8566% by 31st March 2010.

The various sources of funds available for investment by life insurers can be broadly classified as funds from (i) traditional products and (ii) ULIP products. The total funds invested by life insurers as on 31st March, 2010 was 12,05,155 crore (9,16,365 crore in 2008-09), of these 3,31,619 crore (27.52 per cent of total funds) represents ULIP funds and the remaining 8,73,536 crore (72.48 per cent) is the contribution by traditional products. The
share of ULIP funds in total investments has continued to grow in recent years reflecting the public preference for these products. During the year under review, ULIP funds contributed 55 per cent of the incremental investments (26.39 per cent in 2008-09). While ULIP funds contributed 1,58,856 crore (39,686 crore in 2008-09) of the incremental investments, the contribution by the traditional products was 1,29,934 crore (1,10,710 crore in 2008-09).

Based on a further segregation of funds under the traditional products and ULIP, Life Fund contributed 7,32,613 crore (60.79 per cent), Pension and General Annuity & Group Fund 1,40,923 crore (11.69 per cent) and ULIP Fund 3,31,619 crore (27.52 per cent) of the total investments of the life insurance companies. During 2009-10, the share of ULIP funds in total investment has gone up considerably from 18.85 per cent in 2008-09 to 27.52 per cent.

Non-Life insurers contributed 5 per cent of total investments made by the insurance industry. The total amount of investments made by the sector, as on 31st March, 2010, was 66,372 crore (58,893 crore as on 31st March, 2009). During 2009-10, the net increase in investments by the industry stood at 7,479 crore (12.70 per cent growth over previous year).
The pattern of investments made by the nonlife insurers remained the same as was in the previous year, in tune with the prescription laid down under the Investment Regulations. As on 31st March, 2010, the investments in Central Government Securities and Approved Investments stood at 16,038 crore (24.16 per cent) and 24,256 crore (36.55 per cent) respectively.

In the nine years since the Insurance sector was opened up in the year 2000, Insurance industry has witnessed a business growth of more than five times, from Rs. 44705 crore in 2000-01 to Rs. 253272 crore in 2008-09. Ever since, there has been paradigm shift in the meaning and relevance of 'Insurance' to the common man. This growth process in the sector has pioneered abundant opportunities in terms of employee generation. In this scenario, Chartered Accountants (CAs) are thrust with responsibility to authenticate various information submitted to the Regulator by an insurance company. While insurance companies need experts to present their performance meaningfully to the public, stakeholders need professional advices for a meaningful interpretation of the same. Role of CAs, therefore, comes to the forefront in such a scenario.

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was 21.55 as well as 23.56. while it was 16.63, 20.04 respectively during 2010. Which represents fluctuation of insured deposits as well as assessable deposits.

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T-bills index aims to capture portfolio returns when a certain sum is invested in the short term instruments. The short term instruments have been gaining importance as market participants are increasingly using these instruments for their treasury operations. In 2002-03, the T-bills constituted only 3.48% of the total outright trade in the market but in 2004-05, the same increased substantially to 21.75%. In the beginning of the current fiscal, the T-bills trading activity has seen substantial growth and constitutes about 47% of the total trading till April 25, 2005. The increasing activity at the shorter-end of the market highlights the importance of T-bills in the current scenario. However, the market reality is that all sub-
time bucket segments of the short term market are not equally liquid.

The accumulated investments of the insurance sector increased by 30.38 per cent (18.61 per cent in 2008-09) to 12,71,527 crore as on 31st March, 2010 as against 9,75,258 crore as on 31st March, 2009. The life insurers continued to contribute a significant component of the investments made by the insurance industry at 95 per cent of total investments (93.96 per cent in 2008-09). In the same vein, the contribution of public sector companies stood at 82 per cent of the total investments held by the sector, although with the stabilisation of the operations of the private sector insurers, their portfolio of investments has been growing at a fast pace in recent years.

The pattern of investments of the life insurers remained unchanged as on 31st March, 2010 when compared to 31st March, 2009 and was in line with the prescriptions laid down by the IRDA as to the pattern of investment, under the Investment Regulations. Central Government Securities and Approved Investments are two major avenues for parking of funds by the life insurers.

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prescription laid down under the Investment Regulations. As on 31st March, 2010, the investments in Central Government Securities and Approved Investments stood at 16,038 crore (24.16 per cent) and 24,256 crore (36.55 per cent) respectively.

At the end of March 2010, LIC held 65 per cent market share in terms of new business income collection with the private sector contributing the remaining 35 per cent share in 2009-10. According to IRDA, total premium collected in 2009-10 was US$ 24.64 billion, an increase of 25.46 per cent over US$ 19.64 billion collected in 2008-09. A growth of 18 per cent is expected in total premium income and is likely to cross the US$ 64.93 billion mark, according to B Mathur, Secretary General, Life Insurance Council.

The basis of penetration India racket 38 in the year 2005 and the year 2004 in it ranked 44. The growth of life insurance industry in India during this premium growth was more than 100 percent. The general insurance industry did not calk matching growth. Life insurance penetration in India increased from 1.77% in 2000 to 4.1% in 2006, before declining to 4% in 2007.

A well-developed and evolved insurance sector is needed for economic development as it provides long-term funds for
infrastructure development and at the same time strengthens the risk taking ability. The life insurance industry posted a loss of Rs 4,878 crore in the financial year 2008-09, as against a loss of Rs 3,413 crore in 2007-08, according to data released by the insurance Regulatory and Development Authority in its annual report.

In 2008-09, the industry posted a negative growth of 7.16 percent in fresh business premium. While the largest life insurer, Life Insurance Corporation of India, was able to increase its profits, most of the private players continued to incur huge losses. LIC’s profit increased 13 percent to Rs 957 crore in 2008-09, from Rs 845 crore in 2007-08.

Total revenue generated in 2007-08 by LIC is 1,49,782.99 crore against just Rs.51,561, crore, generated by all 21 private players. It shows that even after opening up of the insurance industry and heavy competition from the private players, LIC observed a continuous growth in its revenue generation. One more observation is that, there has been a slowdown in the premium growth for private insurers in 2007-08 (82.50) when compared to previous year 2006-07 (87.31).
As on 31.3.2009 LIC’s investments in the government and social sector investments stand at Rs.5, 29,525 crores. During first two years of the current five year plan, LIC already contributed Rs. 218510 crores to the five year plan.

The Insurance Industry has grown (premium as percentage of GDP) from 2.3 per cent in 2001 to 5.2 per cent in 2011. The report estimates the total insurance premium at approximately Rs $350-400 billion in 2020 with Life Insurance making 90% of the premiums. The profitability of the industry is negative as they have spent their energies in expanding their base in a rapidly growing market without concentrating on the margins leading to a cumulative loss by private insurers of around $3.5 billion. However the huge size of the insurance market which has been estimate at an astounding $350 billion in premium by 2020 is attracting companies in droves. Almost all major global insurance companies have a presence in India through JV (as government regulations only allow 26% holding).

The total investment portfolio of the insurers in India as at the end of March, 2005 was Rs. 4,65,864 crore. The total premium collected by the insurers both life and non-life in 2004-05 was Rs.1,00,335 crore. The major contribution came from life insurance. The insurance penetration i.e., premia as percentage of GDP was 3.17 per cent in 2004. While this ratio is steadily
increasing, it is far below the world average of 8.06 per cent. This shows the vast potential that exists.

Suggestions:

The evidence suggests that insurance contributes materially to economic growth by improving the investment climate and promoting a more efficient mix of activities than would be undertaken in the absence of risk management instruments. This contribution is magnified by the complementary development of banking and other financial systems.

There are two traditional ways to measure the role of insurance in the economy. Insurance density shows the average annual per capita premium within a country, converted from local currency into US dollars. India occupies a very low position with $8.5 (2.4 non-life and 6.1 for life) compared to Malaysia $140.4 (62.3 and 78) South Korea $1,022.8 (262.3 and 760.5) South Africa $490.9 (77.9 and 413.0) and China $13.3 (5.0 and 8.3).

The Indian Health insurance market has emerged as a new and lucrative growth avenue for both the existing firms and new entrants. Health Insurance premium collections were US$ 1750 million in 2009-10 as compared to US$ 893.76 million in 2008-
09, IRDA said in its annual report 2009-10. It should, however, be noted that figures for 2009-10 include policies served by third party administrators (TPAs) as well as those directly served by insurers whereas figures of 2008-09 include policies by TPAs only.

It is estimated that at any given point of time 40 to 50 million people are on medication for major sickness in India. About 200 million workdays are lost annually due to sickness. Survey data indicate that about 60% people use private health providers for outpatient treatment while 60% use government providers for in-door treatment. The average expenditure for care is 2-5 times more in private sector than in public sector.

The Government of India liberalised the insurance sector in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. Under the current guidelines, there is a 26 percent equity cap for foreign partners in an insurance company. There is a proposal to increase this limit to 49 percent.

An important recent reform is the withdrawal of the special privileges enjoyed by the Unit Trust of India, a public sector
mutual fund that was the dominant mutual fund investment vehicle when the reforms began. Although the Unit Trust did not enjoy a government guarantee, it was widely perceived as having one because its top management was appointed by the government. The Trust had to be bailed out once in 1998, when its net asset value fell below the declared redemption price of the units, and again in 2001, when the problem recurred. It has now been decided that in the future, investors in the Unit Trust of India will bear the full risk of any loss in capital value. This removes a major distortion in the capital market, in which one of the investment schemes was seen as having a preferred position.

Over the last 50 years India has achieved a lot in terms of health improvement. But still India is way behind many fast developing countries such as China, Vietnam and Sri Lanka in health indicators (Satia et al 1999). In case of government funded health care system, the quality and access of services has always remained major concern. A very rapidly growing private health market has developed in India. This private sector bridges most of the gaps between what government offers and what people need. However, with proliferation of various health care technologies and general price rise, the cost of care has also become very expensive and unaffordable to large segment of population. The government and people have
started exploring various health financing options to manage problems arising out of growing set of complexities of private sector growth, increasing cost of care and changing epidemiological pattern of diseases.

The depth and efficiency of a country's financial sector largely determine how well its economy allocates resources. Wide agreement has been reached regarding the importance of a strong financial sector to economic growth. Greater financial depth (i.e. greater variety and availability of financial services and instruments) advances economic growth by providing economic agents more opportunities to save, invest, and borrow. Financial efficiency is a measure of how cost effectively these economic agents operate. Greater financial depth and efficiency translate into increased levels of financial intermediation, investment, and productive resource allocation.

As we can see from the numbers, the potential for expansion of the market is huge especially with rising per capita income and a growing middle class that is expected to constitute 32% of the total population in 2010. The insurance penetration levels as a percentage of GDP is expected to grow to 6% by 2012 from the current 4.8% which would translate to a CAGR of 13% for the industry in the next five years.
India with about 200 million middle class household shows a huge untapped potential for players in the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance sector in India has come to a position of very high potential and competitiveness in the market. Indians, have always seen life insurance as a tax saving device, are now suddenly turning to the private sector that are providing them new products and variety for their choice.

During 2009-10, all life and non-life insurance companies were compliant with the stipulations on pattern of investment as laid down in the Investment Regulations. However, General Insurance Corporation of India (GIC) had failed to comply with the provisions on minimum mandatory investment required to be made in Central Government securities. The Corporation was levied a penalty of 5 lakh during 2009-10. All the insurers, both life and non-life had carried out their Risk Management System audit and the concurrent audit through independent external audit firms for their investment functions. This requirement has been mandated for all insurers effective financial year 2009-10.