



## Impact of Liberalization in Indian Insurance Sector

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### **Abstract:**

*Insurance sector is one of the most powerful service sectors in the world economy. Competition is a must in any form of business. Insurance Sector is not an exception to this. Before privatization in this sector there are only limited policies and business opportunities in the country. With privatization, there is a tremendous response and penetration is observed. Any innovation will take time to absorb in the economy. But we should not neglect the business opportunities to develop the economy. Allowing FDI is creating some agony in insurance field, but they could not be continued.*

**Key words:** Competition, Insurance Sector, privatization, service sector

### **Introduction:**

Insurance sector is one of the most powerful service sectors in the world economy. It is not only provides confidence against the risk but also the saving attitude among the people. As “Inclusive Growth” a 11<sup>th</sup> plan initiative of the Indian Government, Insurance Sector is the second largest wing next to the banking sector. From the beginning, the government insurance companies act a major role, now the trend shifted to government and private competition. The Indian insurance industry has experienced drastic transformations during the last two decades. From the nationalization of the Life Insurance corporation in the Assurance wing in 1956 and General Insurance Company in Insurance wing in 1972, the government companies enjoyed monopoly in the insurance market. But the changes have been come in to existence with the entry of the private sector insurance business in the year 2000 as a result of Liberalization, Privatization and Globalization concept.

### **Objectives of the Study:**

The main objective of the study is to elucidate the impact of the liberalization

in Indian Insurance Sector. The other objectives are

1. to analyze the business profile of the Indian insurance business before the liberalization
2. to throw light the significance of the Insurance sector in the Indian economy
3. to suggest policy prescriptions for efficient and progressive Indian insurance sector.

### **Methodology of the Study**

The data to be used in the study are proposed to be collected only from secondary sources like annual reports of IRDA, Journals of IRDA. The methodology adopted for the study includes a detailed analysis of secondary data related to Indian insurance sector . Annual Reports of National Sample Survey Organization, Hand book of statistics on Indian Economy, Reports of IRDA, Statistics of Census of India-2001 and 2011 are used.

### **Trends and Impact:**

Malhotra Committee recommended to the Government to change the face of the industry and to give it a more meaningful direction. Regarding the liberalization of



the insurance industry, the Committee strictly recommended to allow the Private sector to enter in the insurance business. As per the government decision plenty of the private owned companies enter in the insurance sector. Also FDIs are allowed up to 49% of the share in the Indian Private Insurance companies is a major change to uplift the business as well as control the monopoly of the Government Insurance companies.

The spread of insurance is measured in terms of insurance penetration and measure of density. To see the growth and opportunities in the insurance sector in any country, insurance penetration, insurance density, premium. Income and growth in premium should be measured. India is geographically large and has the world's second largest population, i.e., 1.13 billion in 2007.

The life insurance density of India was 9.1 percent in the year 2000-01 when the private sector was opened up. It increased to 52.2 percent in 2009-10. India's life insurance density is very low as compared to the developed countries and developing countries, in spite of India being the second most populous country in the world. This shows that there is much scope for life insurance sector to develop in India. The life insurance penetration of India was 2.15 percent in the year 2000-01 when the private sector was opened up. It increased to 4.90 percent in 2009-10. Since opening up of Indian Insurance sector for private participation, India has reported an increase in life insurance penetration. But compared to UK, France, South Korea, Japan and South Africa, India is way behind. Among developing countries it stands second to South Africa. There is much scope for the life insurance sector to develop in India.

In 2000 the Insurance sector has liberalized and Insurance Development Regulatory Authority has set up. The private players are allowed to operate in collaboration with the foreign insurance companies. Initially the foreign Direct Investment in insurance sector was restricted to 26% which was lifted to 49% in 2012. After liberalization the private companies have been making waves. They have been penetrating their business more and more from year to year and has been increasing their market share and presence.

Indian life insurance industry is one of the sectors that is still observing good growth. It is the changing trends of Indian insurance industry only that has made it to cope with the changing economic environment. Indian insurance industry has modified itself with the passage of time by introducing customized products based on customers' need, through innovative distribution channels, Indian life insurance industry searched its path to grow. Changing government policy and guideline of the regulatory authority, IRDA have also played a very vital role in the growth of the sector. Though the sector is growing fast, the industry has not yet insured even 50% of insurable population of India. Thus the sector has a great potential to grow. To achieve this objective, this sector requires more improvement in the insurance density and insurance penetration. Development of products including special group policies to cater to different categories should be a priority, especially in rural areas. The life insurers should conduct more extensive market research before introducing insurance products targeted at specific segments of the population so that insurance can become more meaningful and affordable. By adopting appropriate strategy along with proper



government support and able guidance of IRDA, India will certainly become the new insurance giant in near future.

### **LIC of India Vs Private Insurance Companies - a Case Study with East Godavari District**

The study reveals that Life Insurance Corporation of India captured major role in the insurance business. 95% of the rural people agree that Government Insurance companies' have greater impact rather than private companies. Only Urban and highly educational people have knowledge on Private insurance companies.

#### **Rural Class & Illiterate**

The Opinion of the Rural & illiterate class people have positive opinion on Traditional Government Insurance Companies. Almost all the Rural sections are familiar with Traditional Policies and do not agree with Private Insurance Companies. Also they fear about the private management and their genuineness.

#### **Urban and Literates**

The opinion of the urban and highly qualified business people is also positive on Government insurance companies. But majority of them access with private agencies and innovative policies. They are accepting only innovative and profitable policies. They opined that there are plenty of business opportunities in Indian both for Government and Private agencies.

#### **Conclusion:**

Competition is a must in any form of business. Insurance Sector is not an exception to this. Before privatization in

this sector there are only limited policies and business opportunities in the country. With privatization, there is a tremendous response and penetration is observed. Any innovation will take time to absorb in the economy. But we should not neglect the business opportunities to develop the economy. Allowing FDI is creating some agony in insurance field, but they could not be continued. Finally we can say allowing private insurance companies from Indian origin as well as from FDI will not create any problem but create many opportunities to Indian citizen not only in the developmental face but also in the security aspect.

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