

Insurance Penetration and Density: A Study with Reference to Life Insurance Sector of India

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Abstract

Life Insurance business in India has shown growth since the liberalization of economy. The growth in life insurance sector also influences the economic development of a country. The present research paper makes an attempt to analyze the growth of life insurance coverage in India by using insurance density and penetration. It also analyses the new business growth in life insurance products in India. However, challenges such as low purchasing power in rural areas, lack of consumer awareness and education, mis-selling of the life insurance products continue to hinder penetration and density in the Indian life insurance market.

Keywords: Insurance Penetration, Insurance Density, Financial Literacy, Inclusion.

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Introduction

Insurance industry plays a pivotal role in the economic development of a country by sharing risk of individuals or group and pooling their funds and investing the same in productive areas for economic growth and development. Policyholders generally pay an agreed amount called premium to the insurance company with a promise to indemnify their loss in case of any uncertainty (Bawa and Chattha, 2013). These pooled funds are invested in various sectors like infrastructure, healthcare, and manufacturing, thereby boosting economic growth. Additionally, insurance fosters financial stability, promotes entrepreneurship by mitigating risks, and supports social security systems. After the enactment of IRDA, a paradigm shift took place in the Indian insurance market with liberalization of the economy which brought significant change in the composition of the insurance market. Private players along with their foreign counterparts entered the insurance market and since then the whole scenario of the market has been changed. Privatization of the sector has increased the insurance penetration and density in both the life and non-life sectors of India, expanding coverage and enhancing competition. The insurance policies mainly cover the urban population with adequate disposable income for investing in insurance policies. The economically weaker section hardly gets any benefit of insurance coverage, though they are most vulnerable to any uncertainties. Very recently insurance sector has also started contributing to the financial inclusion by introducing various schemes for low-income groups with low premiums for their easy affordability. These schemes have been specially designed for rural and urban poor for inclusive growth and promoting equity. Government of India has launched several life insurance products for reaching the bottom of the pyramid (Adhikari & Ghosh, 2024). Some of the schemes are Atal Pension Yojana, Pradhan Mantri Vaya Vandana Yojana, Aam Admi Bima Yojana, Janashree Bima Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana and Pradhan Mantri Suraksha Bima Yojana.

India with huge population having large size of insurable population gives wide market to the insurers for their growth. Since 1991, the insurance market in India has seen a tremendous rise. Insurance business, penetration and density rose for more

than a decade (Adhikari & Ghosh, 2018). Insurance coverage and its performance in any country is assessed by two parameters, insurance penetration and insurance density. Both the levels reflect the level of development of insurance sector in the country. However, a clear picture of insurance market development could be visualized if the new business premium growth is analyzed. The Indian life insurance market has also expanded since liberalization. It was also found that people of India prefer saving their life than saving their properties (Rakshit, 2017). It shows that the insurance market in India is dominated by life insurance. Thus, the present paper analyses the growth of life insurance sector in India with regards to insurance density and penetration. It also analyses the new business growth in life insurance and also outlines the issues for low insurance penetration and density in Indian life insurance sector.

Review of Literature

Rakshit (2017) highlighted that insurance density and penetration of India was much lower in comparison to the world as well as other Asian countries. However, the growth rate increased after deregulation and inflow of private players in the insurance market. It was revealed from the study that the people of India preferred to spend on insuring their life than on property. Kaur (2015) also revealed that insurance penetration and density increased after liberalization. However, due to high population growth rate it showed a declining trend after 2010. The researcher opined that with little modification in the regulatory framework and growing awareness among the insurable population, the insurance industry will have a bright future in India. Kumar et al. (2022) also expected a tremendous change in Indian insurance market in future.

Devarakonda (2016) found a linear correlation between economic development and insurance penetration & density. The study stressed upon the raising the density and penetration of insurance in India. Prasad & Sharma (2017) outlined various challenges in the growth of Indian insurance market and suggested various measures to improve insurance penetration and density. The suggestions included conducting consumer education programme and regulating the problem of mis-selling of insurance products by the agents.

Vimala & Alamelu (2018) found a significant difference in insurance density and penetration between life and non-life insurance companies of India. It was further suggested that insurers should focus on involving rural and backward areas under the purview of insurance. Rao & Periyasamy (2014) found that the growth of life insurance was mostly from urban and semi urban areas and affluent section of the rural areas. The rural poor were not addressed by life insurance policies due to absence of right product for their small disposable income.

Thus, above mentioned studies have highlighted the status of insurance penetration and density in India. These studies have also outlined the various challenges in the growth of the insurance sector of India. Keeping in view the existing literature, the present study focuses on analyzing the insurance penetration and density in life insurance sector of India for a period of ten years.

Objectives of the Study

1. To assess the growth of insurance penetration and density with reference to life insurance sector of India.
2. To study the growth of life insurance premium in India.
3. To identify the issues hindering the insurance penetration and density in India.

Methodology of the Study

The present paper is descriptive in nature. The data has been collected from Handbook of Indian Insurance Statistics 2022-23. There are twenty-four life insurance companies operating in India, Out of these, twenty three companies are in private sector and the only public insurance company is Life Insurance Corporation of India (LICI) which is the oldest as well as the largest insurance company operating in India. The data relating to life insurance density and penetration, new business premium and renewal premium have been used to analyze the status and growth of life insurance sector in India.

Results and Discussion

The present status of insurance sector in India can be measured using two important tools namely Insurance Penetration and Insurance Density. These metrics are widely recognized as

essential for evaluating the development of the insurance industry in any country (Vimala and Alamelu, 2018; Prasad and Sharma, 2017). Insurance penetration is measured as ratio of premium to GDP. It is the total premium collected towards life insurance as a percentage of GDP. Insurance Density is measured as ratio of premium (in US Dollar) to total population. It is the per capita spending on insurance by the people of India. Table 1 depicts the growth in insurance penetration and density of life Insurance products in India. The results revealed an Annual Average Growth Rate of 6.33% in insurance density but a negative growth of -0.07% in insurance penetration. While the similar picture can be seen in the overall industry too. A very slow growth in the insurance density and penetration is clearly evident from the data.

Table 1: Insurance Penetration & Density of India

Year	Life				Industry			
	Penetration (in %)	Growth (%)	Density (in USD)	Growth (%)	Penetration (in %)	Growth (%)	Density (in USD)	Growth (%)
2013	3.1	-	41	-	3.9	-	52	-
2014	2.6	-16.13	44	7.32	3.3	-15.38	55	5.77
2015	2.72	4.62	43	-2.27	3.44	4.24	55	0
2016	2.72	0	47	9.3	3.49	1.45	60	9.09
2017	2.76	1.47	55	17.02	3.69	5.73	73	21.67
2018	2.74	-0.72	55	0	3.7	0.27	74	1.37
2019	2.82	2.92	58	5.45	3.76	1.62	78	5.41
2020	3.2	13.48	59	1.72	4.2	11.7	78	0
2021	3.2	0	69	16.95	4.2	0	91	16.67
2022	3.0	-6.25	70	1.45	4.0	-4.76	92	1.1
AAGR (%)	-	-0.07	-	6.33	-	0.54	-	6.79

Note: Data relates to financial year

Source: Handbook of Indian Insurance Statistics 2022-23

In case of life insurance penetration, as revealed in Handbook of Indian Insurance Statistics 2022-23, the status of India (3.1%) in 2013 is far below than that of some other developing countries of Asia like Taiwan (14.5%), Thailand (3.8%), Singapore (4.4%) and

even after ten years India could not increase the life insurance penetration as compared to these countries in 2022 [Taiwan (8.2%), Thailand (3.4%), Singapore (7.4%)]. It is to be mentioned that the life insurance density of India in 2013 was 41 USD which is way lower than the world average of 366 USD. The picture remained almost same in 2022 where India's average is 70 USD and the world average is 354 USD. Indian life Insurance density in the Global Scenario shows a grim picture. Keeping in view the bleak scenario, the policymakers and the regulators of life insurance sector of India need serious introspection over the matter.

To further assess the growth of insurance business, new business premium collected over the years must be analyzed. Table 2 shows the growth in the life insurance business in India as depicted through new business premium and total premium. The average annual growth rate of new business premium is 13.71% and renewal premium is 8.72% and the overall growth in total premium is 10.70%. The new business growth reveals inclusion of new person under insurance or higher coverage for the same person. The renewal business showing low growth rate due to prevailing 3-8% lapsation rate of life insurance business as revealed by Handbook of Indian Insurance Statistics 2022-23.

Table 2: Life Insurance Business in India

(Premium in ₹ Crore)

Year	New Business Premium	Growth (%)	Renewal Premium	Growth (%)	Total Premium	Growth (%)
2013-14	120,325.22	-	193,976.44	-	314,301.66	-
2014-15	113,329.53	(5.81)	214,772.48	10.72	328,102.01	4.39
2015-16	138,765.99	22.44	228,177.24	6.24	366,943.23	11.84
2016-17	175,202.68	26.26	243,273.93	6.62	418,476.61	14.04
2017-18	194,153.90	10.82	264,655.54	8.79	458,809.44	9.64
2018-19	215,003.04	10.74	293,128.99	10.76	508,132.03	10.75
2019-20	259,262.38	20.59	313,647.81	7.00	572,910.19	12.75
2020-21	278,699.92	7.50	350,031.11	11.60	628,731.04	9.74
2021-22	314,867.82	12.98	377,746.32	7.92	692,614.14	10.16
2022-23	371,225.82	17.90	411,278.15	8.88	782,503.97	12.98
AAGR (%)	-	13.71	-	8.72	-	10.70

Source: Handbook of Indian Insurance Statistics 2022-23

The new business of life insurance sector has been severely affected due to covid 19 in the year 2020-21 as has been revealed from table 2.

Issues for Low Insurance Penetration and Density in Life Insurance Sector

The life insurance sector plays a crucial role in providing financial security and risk mitigation for individuals and families. However, despite its significance, insurance penetration and density remain relatively low in India. Various structural, economic, and behavioral challenges hinder the widespread adoption of life insurance, preventing it from reaching a large section of society, particularly the rural and economically weaker populations. Addressing challenges are essential for achieving inclusive insurance coverage and ensuring the long-term growth of the sector. Some key issues contributing to the low insurance penetration and density in India's life insurance sector are as follows:

1. **Lack of Consumer Awareness and Financial Literacy:** Low financial literacy across India prevents people from making informed decisions about insurance. Even formally educated individuals often lack financial knowledge to allocate their savings efficiently. Inadequate awareness about insurance benefits hampers insurance penetration, making it difficult to achieve the goal of "insurance for all."
2. **Inadequate Agent Training:** Consumers need to be educated through various channels about insurance benefits. Proper training should be provided to agents to prevent mis-selling and ensure customers receive policies that suit their needs. Increased awareness can lead to higher insurance adoption rates.
3. **Agent-Based Selling Issues:** Agent based model is the most common model for selling policies by many insurance companies. Many agents prioritize policies with high commissions rather than customer needs. Aggressive sales tactics lead to mis-selling, causing policy lapsation and a loss of customer trust.

4. ***Rural Insurance Penetration Challenges:*** The difficulty and cost of penetration in rural areas for undertaking small policies from the economically poor class does not motivate agents to put efforts rather they prefer to contact the same group of clients for additional policies. Agents prefer selling to urban clients instead of making efforts to cover the lower-income population. The uniform channel of distribution does not cater to diverse socio-economic groups, resulting in lower insurance penetration and density in rural areas.
5. ***Slow Technological Adaptation in Insurance Distribution:*** Due to multi-channel distribution, the acquisition cost rises and hence rural penetration of insurance policies gets hindered. It was observed that there was a huge rise in online purchase of insurance products nowadays (Chauhan & Singh, 2023). Many private insurers sell their policies online however LIC still follows the traditional agent based model. As technology is advancing, the adaptation of the businesses to the updated technology will provide competitive advantage.
6. ***Low Purchasing Power and Economic Constraints:*** Low purchasing power linked with poor income of majority of the population and rising essential commodities leave little room for insurance expenditure. Since the benefits of growth didn't adequately percolate down to lower economic strata of the society even today, people of lower middle income class and lower income class of the society are yet to adopt insurance coverage after meeting their daily requirements. Except few developed states of India, large section of the society of most of the Indian states still strive to fulfil their transaction motive and it becomes extremely difficult for them to think about putting their money for precautionary motive.
7. ***Impact of Mis-Selling on Industry Reputation:*** Mis-selling of the life insurance products by the agents ignoring the need and capacity of policyholders also affects the image of the insurance company as well as the industry as a whole. Mis-selling in any form may lead to lapsation of life insurance policy, which results in loss of confidence of customers as well as negative publicity. Although many companies over the years could attract new people within the orbit of life

insurance, lapsation of policies linked with mis-selling move the stream in the opposite direction to a certain extent.

Conclusion

The present status of insurance sector in India as measured by Insurance density and penetration shows a slow growth since the past ten years. However, the situation was quite fruitful soon after the liberalization when private companies entered Indian life insurance market and the sector grew tremendously. The development of the market however can be properly understood from the new business premium growth which was found to be favourable. Various factors hinder the growth of the life insurance penetration and density. If the issues are addressed by appropriate authorities on time, IRDA's aim 'Insurance for All by 2047' will be achieved within the specified time.

To increase the penetration of insurance in India, consumer awareness programmes should be undertaken on a wider basis to increase awareness of people regarding importance of insurance. The agents should be trained to spread awareness and reduce mis-selling which obstructs people to trust insurance policies. The regulatory frameworks laid down by IRDAI should be relieved by simplifying the rules and regulations for the insurers. Bancassurance is rapidly growing all over the world. If it is spread in India, will lead to wider insurance coverage for all. Further, the economically weaker population residing in rural areas, should be brought under the umbrella of insurance which will not only insure their lives but also develop the economy inclusively and sustainably.

Further the government of India may initiate a comprehensive reassessment of income tax structure by including life insurance policy especially term insurance as deduction under new tax regime thus enhancing life insurance density in India. Further if income tax treatment for receiving annuity under pension policy of life insurance companies can be reviewed in the line of treatment of tax for NPS at the time of retirement, it will allure people to consider such policies as important component of retirement planning and thereby increase the insurance density. The rate of GST is also expected to be reviewed for increasing

the insurance penetration by providing pricing benefits to potential policyholders.

The venturesome insurers through right combination of distribution model and customized insurance products with affordable premium can penetrate into the virgin market of rural India and slums of urban India. Further leveraging appropriate technology and creating more accessible models of distribution can go a long way to bring a sizeable section of the population under life insurance coverage. Although income level of the population is one of the robust determinants of insurance consumption, the role of government sponsored insurance schemes and developmental role of regulator can hardly be ignored in deepening life insurance penetration and density across the states of India.

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