Impact of Globalization: An Overview of Insurance Industries in India

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INTRODUCTION

The insurance sector is of considerable importance to every developing economy. It inculcates the habit of savings which in turn generates long-term investible funds for improving infrastructure facilities. Leading insurance companies are thus being positioning themselves to succeed in future by significantly modulating the business strategies. The nature of insurance business ensures constant inflow of funds and challenges such as unprecedented volatility, changing customer base and existing regulators. Despite the challenges ahead, opportunities for growth can be anticipated by horizontal global expansion. Despite the fact that the nationalization brought with it the public sector bureaucracies, cumbersome and inefficient procedures, these nationalized insurance companies managed to have millions of policy-holders who have no other options. Any attempt to even suggest private participation with a view to instill healthy competition and efficient services was only met with stiff resistance and partial success. Although the early 90s brought forth liberalization on all major economic fronts, the insurance sector was left untouched. However, the implementation of IRDA bill in 1999 paved the way for the liberalization of the Indian insurance sector.

The insurance premium in India accounted for a mere 2% of GDP as against the world average of 7.8% and G-7 average of 9.2% during 90s. The insurance premium as a percentage of savings in India is 5.95% as compared to 52.5% in UK (IRDA, 2005). The nationalized insurance companies could barely unearth the vast potential of the Indian population since the policies lacked flexibility and the Indian life insurance products are not linked to the contemporary investment avenues. The life insurance industry in India grew by an impressive 36%, with premium income from new business at Rs. 253.43 billion during the fiscal year 2004-2005, braving stiff competition from private insurers. This report, "Indian Insurance Industry: New Avenues for Growth 2012", reports that the market share of LIC has clocked 21.87% growth with a business of Rs.197.86 billion by selling 2.4 billion new policies in 2004-05. But this was still not enough to arrest the fall in its market share, as private players grew by 129% to mop up Rs. 55.57 billion in 2004-05 from Rs. 24.29 billion in 2003-04.

IMPACT OF GLOBALIZATION

In the twenty-first century, globalization has become the driver of change in the business plans of most multinational corporations. The rapid improvement in communications technology and the tendency towards more open economies has lead to the development of the globalization concept, with an assumption that the world is one big market, having access to all regions and all communities. Hence, efficient insurance marketing plays a predominant role for achieving sustainable and strong economic growth together with globalization. In addition, the progress in IT sector forms a major driver behind the structural change in the insurance industry to enhance risk transfer efficiency. Further, the e-business opens up new avenues to reduce recurring costs besides lowering the barriers of market entry, thus facilitating the break-up of the traditional insurance value chain, allowing greater transparency, lower investment and improved client services, not only in the sales area, but also in claims management. With their capabilities, capital and know-how, global insurers play a major role in the establishment of an efficient insurance sector. In conjunction with the forces of global consolidation, current advances in information technology and the potential of e-business marks the beginning of a veritable efficiency revolution in the insurance industry.

Due to their greater financial strength and risk diversification capabilities, foreign insurers also often have superior claims disbursement, which can help to enhance the general financial condition of the individuals, households and corporations in emerging markets. Although the foreign investment in insurance sector is important in promoting financial stability, it also helps to facilitate the trade and commerce in developing economies. The availability of a reliable insurance sector has long been recognized as one of the prerequisites in attracting foreign direct investment. Globally active industrial and service companies expect their insurers to follow them and provide world-wide support. The potential of the Indian insurance market is huge with life insurance and non life insurance penetration being only 3.18 % of the GDP. Currently, only 8% of the population is insured, while the total insurable population is estimated to be 240 million and this figure is likely to increase rapidly. Given this vast potential, India is an attractive destination for global insurers. Further, Insurance penetration

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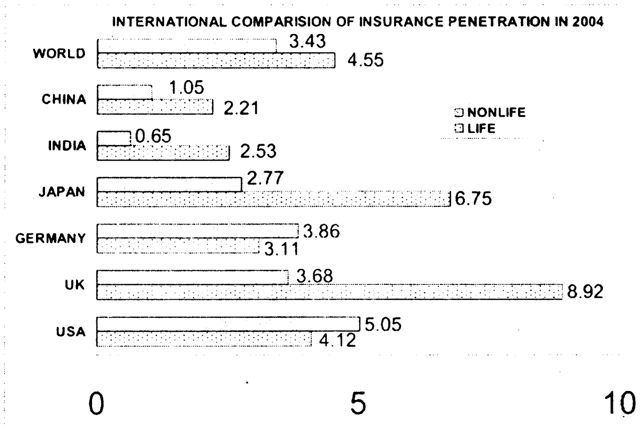
(IRDA Annual report, 2004) in India is comparable to China while it is lagging behind global averages and is considerably behind Japan and the UK. As regards insurance density, India is behind China and even more so compared to global averages.

Further, the participation of foreign insurers could improve the efficient capital allocation in emerging economies. Underwriting and investment decisions made by foreign insurers, due to their international experience and best client service oriented practices could send useful signals to markets for efficient resource allocations. These signals, particularly in markets where credit allocations are not purely based on economic considerations, are important in improving capital productivity. Additionally, multinational companies are becoming increasingly sophisticated regarding risk management practices, and demand the ability to combine and integrate their risk management programs on the a global basis.



Source: IRDA, 2004

KEY MARKET INDICATORS

Life and Non-life market in India	Rs. 127213.73 Crores
Global insurance market (as on 31st December2005)	US $3425.71 billion. Nominal growth : 4.9% Inflation adjusted: 2.5%
Growth in premium underwritten In India and Abroad in 2005-06	Life : 27.78%. Non-Life: 15.6%
Geographical restriction for new players	None
Equity restriction	Foreign promoters can hold up to 26% of the equity
Registration restriction	Composite registration not available

Source: IRDA, 2006

GLOBAL RISK EXPOSURE

A challenging business environment requires insurance companies to rethink the fundamentals of their business. The Insurance industry has also succumbed to the general trend towards globalized markets and risk which is evident by more rapid growth in global trade, direct investment and portfolio insurances than merely restricted to the production of goods and services. These global firms face a number of unique kinds of loss exposures that arise as a result of conducting business in multiple countries. These include risk such as terrorism (Anti-money laundering), kidnapping, political instability, uncertain legal environment, currency risk, import and export restrictions, technology and communication problem, financial markets' weaknesses, and substandard infrastructure. (Trieschmann & Gustavson, 2003). The inability to assess the accurate risk by the global firms may also be due to improper information retrieval in the underdeveloped and developing countries.
Multinational insurers are keenly watching the transformation of the Indian insurance sector, mainly because the domestic markets have become saturated for the indigenous insurer. International insurers thus mainly focus on to capture a significant part of their business from their multinational operations only. UK's largest life and non-life insurers acquired 40% to 60% of their total premium from their multinational operations. The foreign investors are finding the Indian market more attractive because even a small share of a growing market looks lucrative. The other reason for the global insurers to show interest in Indian market is based on the principle of spreading the area of operations over a wide geographical area that would eliminate sudden dips in earnings due to the unexpected risk spread.

GLOBAL RISK MANAGEMENT

Stead-fast advancement in technology coupled with reduced trade barriers in many countries, have steadily led to a globalization of business generally. Globalization affects risk management and insurance in two ways. Firstly, firms and organization that do business internationally face differences in their loss exposure and in the risk handling methods they use; secondly, globalization and difference in future growth potential have led many insurers to reevaluate the focus of their business and to consider expansion overseas. The opening up of the insurance markets in emerging markets to foreign competition has long been a contentious issue. The factors such as including the unfavorable balance-of-payment effect and the need to protect infant industries have been advanced to justify measures to confine foreign inroads in the market. Hence, critical balance between the stability of the insurance market and efficient consumer service is of paramount importance in the risk assessment and management.

Additionally, the sophisticated global customers increasingly demand high-quality risk management services, such as claim management and loss control, which make the many insurers to further improve their international capabilities and to offer better risk management practices. The same forces that prompt insurers to develop ear-flung business operations make risk aggregation more challenging and cause exposures to become more interrelated. Globalization has both the features – negative as well as positive. Unemployment due to replacement of traditional technology by modern technology has made its negative impact, whereas availability of new opportunities in the employment market has made its positive impact. We have to accommodate ourselves as per the demands of the market.

EFFECTS OF GLOBAL INSURANCE

Job opportunities: Corporate India has come a long way, since the government opened up the Indian insurance markets for global competition. Despite the fact that opening of the insurance sector to the foreign investors might have an impact on Indian economy, it might have positive signals on creating more number of job opportunities. There is a probability of a spurt in employment opportunities. The people working in insurance sector in India are approximately the same as in the UK, which has only 1/7th of Indian population. Besides, the new concept of bancassurance has paved the way for more job opportunities in the financial sector such as marketing, finance and human resource management, apart from the demand for technical expertise from professionals in the field of underwriting and claims management subjects.

Foreign Direct Investment: As countries have liberalized their insurance industries and allowed foreign direct investment, there has been a surge in new premium income. There would be huge inflow of funds into the country with foreign capital splurging in the Indian insurance companies as start up capital. Across the world, the FDI has helped for the growth of the insurance industry. The insurance sector being a highly capital intensive sector requires huge investment over prolonged periods of time and there is a constant need for capital injection.

Indigenous reinsurance: Even the reinsurance sector looks for opulence with global players like Swiss Re and Munich Re keen on entering into the insurance industry in India. While there will be a deep fall in the outward reinsurance, India would receive inflow of funds from the neighbouring countries. If the legislative support offers a congenial atmosphere, the entry of global insurers is not far off.

Information Technology: Apart from the above economic benefits, there would also be a revolution in the transfer of technologies and knowledge from the global participants in the fields of training, risk management, underwriting, introduction of new policies etc. With more global participants in the market, there would be healthy competition with increased advertisement expenditure for brand building and scientific pricing methods. To make the most of these opportunities, insurance firms need to be able to retrieve information more quickly and consistently across the lines. The transformation of information technology aggregates data across the industry, turning them into useful information that can help extend its insurance business and empowers it's staff to make fast, well-informed with customer focused decisions.

Distribution Channel: The distribution channels, in general, will be widened once the products offered are many. For instance, the seller himself at the point of sale itself can offer insurance for durable consumer items such as a television or a refrigerator. In such cases, the non-financial sectors also join in distributing the insurance products and benefit mutually. However, success depends on a number of factors ranging from customer service, multi-channel integration and innovation and cost efficiencies. There are also opportunities to understand and satisfy the needs of the more sophisticated or demanding customers. Insurers are recognizing the importance of a multichannel strategy to better serve their markets, but this also implies the need to better integrate them. Innovation and the creation of new products and services are key to remaining competitive.

CONCLUSION

The Indian life insurance market holds promising long-term opportunities for global players. The complexities of competing internationally are significant. But the untapped potential in many markets around the world continues to make globalization a key strategy for leading insurance firms. Insurance companies have always sought to improve their product-service offerings and their operations to sustain market share and competitive edge in the marketplace. Indian insurance companies have been able to identify possible synergies between Indian and global companies and their ability to create global compatibility. In the liberalized insurance era, 12 life insurance companies apart from the public sector Life Insurance

Corporation of India and 9 general insurance companies in addition to 4 state owned companies viz. The United India Insurance, New India Assurance, Oriental Insurance and National Insurance Company, the private insurers have already proved their success by way of their performance during the current financial year with 71% growth in the premium income. The investors worldwide are eagerly waiting for establishing their insurance business in India with a fond hope of government of India announcement on the increased capital in FDI investment and FII in the Indian insurance segment.

India: Life Insurance scenario

	Premium U/W 2004-05[1] Rs. In lakhs	Premium U/W 2003-04[2] Rs. In lakhs	Premium growth over previous year (%)	Premium market share (%)	Policies market share (%)
LIC	1,978,593.20	1,624,042.67	21.83	78.07	91.50
ICICI prudential	158,408.46	75,091.03	110.95	6.25	2.34
Bajaj Allianz	86,001.80	17,970.51	378.57	3.39	1.10
Birla Sunlife	62,128.31	44,986.19	38.11	2.45	0.76
HDFC Standard	48,615.08	20,933.26	132.24	1.92	0.79
SBI Life	48,293.56	20,247.71	138.51	1.91	0.49
Kotak Mahindra old mutual	37,475.21	12,408.24	202.02	1.48	0.24
Tata AIG	30,022.07	18,015.47	66.65	1.18	0.57
ING Vysya	28,162.46	7,255.66	288.14	1.11	0.42
Max New York	22,469.01	13,148.80	70.88	0.89	0.83
Aviva	19,229.27	7,713.84	149.28	0.76	0.32
AMP Sanmar	9,118.44	2,788.16	222.04	0.36	0.13
Met life	5,603.71	2,338.16	139.66	0.22	0.18
Sahara Life	167.09	—	0.01	0.04	—
Total	2,534,120.58	1,866,939.70	1963.89	100.00	100.00

Source : IRDA Journal, May 2005, [1] Fiscal Year ending March 2005, [2] Fiscal Year ending March 2004

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