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## LIFE INSURANCE PENETRATION AND DENSITY (INDIVIDUAL BUSINESS) IN INDIA

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### ABSTRACT

The Indian insurance industry has undergone transformational changes since 2000 when the industry was liberalized. With a one player market to 24 players in 13 years, the industry has witnessed phases of rapid growth along with extent of growth moderation and intensifying competition. There have also been number of product and operational innovations necessitated by consumer need and increased competition among the players. As the insurance industry is growing in our country, it is important to analyze its growth. Thus, the present paper is an attempt to study the density and penetration of life insurance in India.

**KEYWORDS:** Life Insurance, Penetration, Density, Individual Business.

### INTRODUCTION

In our life, whenever there is uncertainty there is an involvement of risk is one of the basic motivating forces determining human attitudes. As a sequel of this quest for security, the concept of insurance was emerged the urge to provide insurance or protection against the loss of life and property have prompted people to make some sort of sacrifice willingly in order to achieve security through collective co-operation. In this sense the story of insurance is probably as old as the story of mankind. Insurance as an industry has secured a vital position in the development of the nation's economy. An efficient insurance market is essential to achieve integration into the global economy and sustainable strong economic growth. In conjunction with the forces of global consolidation, current advances in information technology and the potential of e-business mark the beginning of a veritable efficiency revolution in the insurance industry.

Insurance is an arrangement to deal with unpleasant contingencies. It is a contractual arrangement which provides partial or total protection against adverse, especially financial outcomes. While there are many outcomes or risks which are insurable, there are many more against which there can be no insurance. Broadly insurance contracts can be divided into life and non-life insurance. Life insurance, method by which large groups of individuals equalize the burden of financial loss from death by distributing funds to the beneficiaries of those who die.

Life insurance is most developed in wealthy countries, where it has become a major channel of saving and investment. Upon the death of the insured, the beneficiary may choose to accept a lump-sum settlement of the face amount of the life insurance policy, receive the proceeds over a given period, leave the money with the insurer temporarily and draw interest on it, or use it to purchase an annuity that guarantees regular payments for life. Life insurance in particular provides protection to a household against the risk of premature death of its income earning member. In

traditional societies such as India, the joint family system itself provided an insurance umbrella and succor to surviving family members. Life insurance is an effective and significant tool, which helps an individual's family members in fulfilling their basic and critical requirement, so that they can live a secured life even when their loved one or the earning member of the family is not around them as the insurer will provide to the beneficiary of the life insurance policy with the predetermined amount of money after the death of insured. Life insurance is purchased for many reasons such as financial requirements of the family, drawing loan against insurance policy, diverse alternative of investment, protection against illness and accidents and tax benefits etc.

## REVIEW OF LITERATURE

Suthanan (2000) attempted to expose the drawbacks of insurance sector, especially the flaws of the LIC of India, in the form of low supply of investment, pension and health care products in comparison to their demand. In comparison to its competitors the rate of penetration of the corporation is quite low. Non-availability of customer friendly products, high premium, mismanagement of assets; low investment yield and low consumer satisfaction are the chief factors that cause inefficiency in the Corporation, which need to be eliminated so that the challenges of liberalization can be confronted in a better way. The eradication of these factors will definitely beneficial for the insurance sector. Mittal, S.K. and Sharma, K.C. (2001) arrived at the conclusion that the entry of private players tend to increase the competition in the field of insurance sector. As the foreign dominance in collaboration in life insurance might give way to replication of the products which are in vague in industrial countries and which may not be suitable or useful for Indian customers, as they may not properly be matched with their typical requirements. Liberalization of insurance sector may prove a great boon for the Indian economy if adequate opportunities of growth are provided in the form of challenges and if they are regulated and promoted properly. The authors stressed on the liberalization of insurance sector under certain circumstances. Gupta (2001) highlighted that the transition of insurance industry from a public monopoly to a competitive environment poses interesting challenges to competitors and consumers. The new players shall have a great chance to test their various hypothesis and experiences from the markets overseas. On the other hand, the LIC of India has to prove its efficiency in the competitive market. As a result of that the consumers shall have more options for the gratification of their needs. Once again, the fact that competition can surely improve the quality of products and services in insurance sector, thereby giving more choices to the consumers for the fulfillment of their requirements. R. Masilamani (2007) endeavored to identify the manners by which the safety of an insurance policy can be ensured. In his article the researcher conclude that the government of India looks forward to bring in a comprehensive legislation relating to insurance matters. Joy Chakraborty (2007) a research associate affirmed that the Indian insurance industry underwent a tremendous change with the entry of private players, who grabbed a significant percentage of market share (26.6%) during 2005-2006. G. Raju (2009)<sup>42</sup> counsels that insurance is a key segment of financial services. The life insurance sector grants long-term funds for the development of infrastructure. K, Alamelu (2011)<sup>48</sup> brings to light that the financial indicators of the Indian life insurance sector are sufficiently satisfying. The Indian life insurance sector has experienced tremendous development with the emergence and entry of private players in 1999.

## OBJECTIVE AND RESEARCH METHODOLOGY

Present paper is an attempt to study life insurance penetration and density in India. To achieve this objective secondary data have been used. The secondary data have been collected from the IRDA website, reports of various insurance companies. The data have collected for period from 2006-07 to 2012-13. The present analysis is limited to individual business of life insurance companies.

## TOOLS AND TECHNIQUES

To analyze the data, simple average and time series analysis has been used. Simple average has been used to find out average penetration and density for the individual states of India. Time series analysis has been used to calculate the trend value for the period of seven years, that is, from 2006-07 to 2012-13. Trend line is calculated by applying least square method. The equation of trend line is  $Y = a + bX$ . Value of 'a' and 'b' has been calculated by using two normal equations, that is

$$\sum Y = Na + b \sum X$$

$$\sum XY = a \sum X + b \sum X^2$$

## LIFE INSURANCE PENETRATION IN INDIA

India, with its huge middle-class households, exhibits untapped potential for the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. Thus, India continues to be an attractive market for most insurance players both domestic and foreign. The level of penetration which is the measure of premiums as a percentage of a country's GDP in life insurance has a strong positive correlation to income levels. Ramachandran, chief executive officer and managing director of Aviva India, said that products will play an important role in increasing penetration. Insurance addresses four key needs in a customer's economic lifecycle, which include savings, protection, investment and retirement. The low threshold level for term products will result in more people getting an insurance cover. Financial literacy initiatives by the insurance companies will also play a big role in educating customers and increasing penetration. Tax benefits along with products will encourage people to invest in insurance. Thus, to evaluate the growth and development of life insurance sector, it is important to measure its penetration trend. Life insurance penetration (individual business) has been given in Table 1 and trend line has been presented in Table 1.a and graphically shown in Graph 1.

**Table 1**  
**State Wise Life Insurance Penetration of Individual Business in India**

*(in percent)*

State	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Average percentage
Andhra Pradesh	1.71	1.56	1.15	1.17	1.04	0.77	0.63	1.15
Arunachal Pradesh	0.41	0.67	0.46	0.55	0.44	0.53	0.27	0.48
Assam	1.50	1.62	1.34	1.45	1.23	0.96	0.98	1.30
Bihar	1.78	1.99	1.57	1.70	1.20	0.90	0.71	1.41
Chhattisgarh	1.51	0.89	0.60	0.72	0.64	0.43	0.35	0.73
Goa	1.18	1.66	1.44	1.48	1.29	0.88	NA	1.27*
Gujarat	1.23	1.34	1.27	1.23	1.06	0.77	NA	1.15*
Haryana	1.21	1.11	0.70	0.66	0.62	0.41	0.39	0.73
Himachal Pradesh	2.68	2.88	1.66	1.99	1.56	0.79	0.72	1.75
Jammu & Kashmir	1.49	1.67	1.03	1.23	1.07	0.69	0.59	1.11
Jharkhand	1.49	1.53	1.40	1.45	1.17	0.85	0.67	1.22
Karnataka	1.63	1.85	1.37	1.40	1.17	0.87	0.73	1.29
Kerala	2.54	3.62	2.01	2.00	1.72	0.88	NA	2.13*
Madhya Pradesh	1.62	1.62	1.29	1.39	1.23	0.83	0.68	1.24
Maharashtra	1.23	1.64	1.45	1.46	1.21	0.90	0.80	1.24
Manipur	0.87	1.43	0.94	1.31	1.20	0.70	0.67	1.02
Meghalaya	0.53	0.86	0.6	0.67	0.62	0.39	0.39	0.58
Mizoram	1.55	1.40	1.32	0.92	0.62	0.39	NA	1.03*
Nagaland	0.63	0.54	0.50	0.69	0.48	0.85	0.37	0.58
Orissa	1.28	1.48	1.11	1.27	1.04	0.69	0.58	1.06
Punjab	1.84	2.05	1.35	1.29	1.08	0.60	0.52	1.25
Rajasthan	1.89	1.74	1.17	1.27	0.96	0.57	NA	1.27*
Sikkim	2.39	2.35	1.10	0.63	0.65	0.44	0.39	1.14
Tamil Nadu	1.81	2.36	1.32	1.26	1.12	0.73	0.58	1.31
Tripura	1.29	1.65	1.19	1.45	1.36	0.58	0.63	1.16
Uttar Pradesh	1.76	1.79	1.35	1.45	1.28	0.85	0.71	1.31
Uttarakhand	1.66	1.48	1.09	1.25	1.15	0.76	0.62	1.14
West Bengal	1.42	1.77	1.68	1.92	1.66	1.11	0.85	1.49
Andaman & Nicobar	1.92	1.63	1.41	1.71	0.73	0.60	0.34	1.19
Chandigarh	6.95	6.33	4.93	4.08	3.54	2.03	NA	4.64*
Delhi	2.86	2.47	2.22	2.08	1.74	1.10	0.91	1.91
Pondicherry	0.67	1.15	1.09	0.76	0.94	0.53	0.44	0.80
All India	1.56	1.73	1.31	1.31	1.14	0.78	0.66	1.21

**Source:** IRDA annual report 2012-13

**Note:** \*= the average value has been calculated by taking the value for six year due to non-availability of data for the year 2012-13

NA= Data Not Available

Data in Table 1 depict that insurance penetration was highest in Chandigarh and was lowest in Arunachal Pradesh from 2006-07 to 2012-13. In Chandigarh the average value was 4.64 per cent whereas in Arunachal Pradesh it was 0.48 per cent. Table shows that life insurance penetration in India is showing decreasing trends in all the state during the period under study. Thus, it can be concluded that people are showing their apathy towards life insurance. People are now looking for other mechanisms (such as property, share market etc.) to invest their saving/income.

Table 1.a

**Trend Value of Insurance Penetration (individual business) in India.**

Year	Insurance Penetration (All India)	Trend Value
2006-07	1.56	2.14
2007-08	1.73	1.46
2008-09	1.31	1.29
2009-10	1.31	1.12
2010-11	1.14	0.95
2011-12	0.78	0.78
2012-13	0.66	0.61

Graph 1

**Trend Line of Insurance Penetration (individual business) in India**

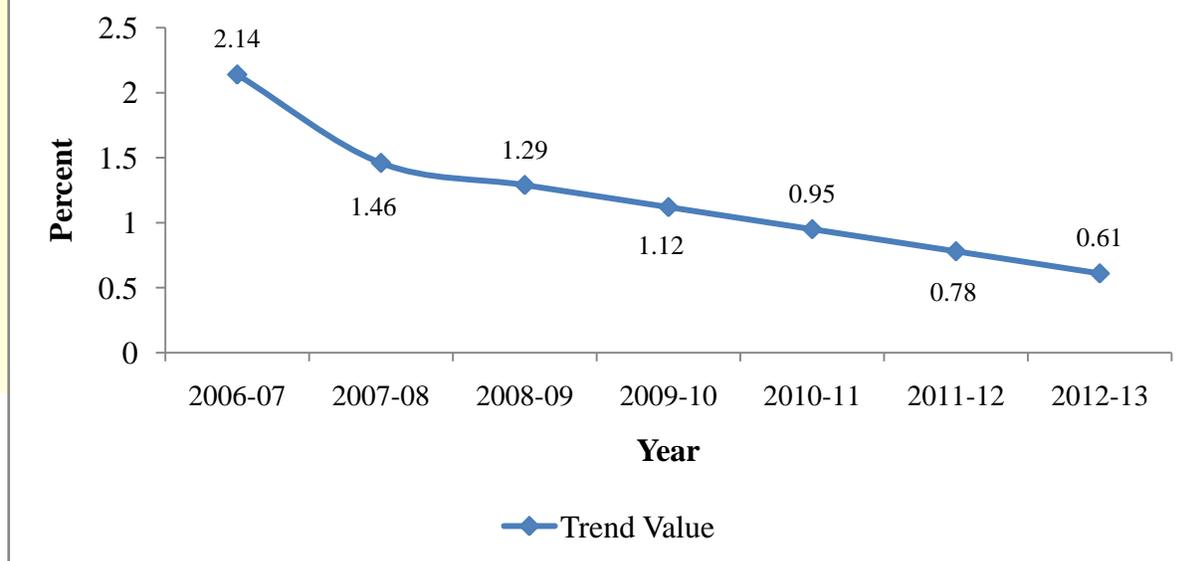


Table 1.a shows that trend value of insurance penetration in India is decreased from 2.14 per cent in the year 2006-07 to 0.61 per cent in the year 2012-13. It is also presented with the help of graph.

Trend line shows a downward trend. This decreasing trend is a matter of concern for the insurance sector. It can also be inferred that people are not showing their interest in purchasing life insurance products. Their saving pattern has changed as they are looking for other avenues for investing and saving their incomes.

### **LIFE INSURANCE DENSITY IN INDIA**

Insurance penetration and density are two important indicators, which provide the level of development of insurance sector in an economy. Life insurance density is the ratio of premium and the population, that is, per capita premium in the country and is expressed in currency units. Further, the ratio of insurance density to the insurance penetration is simply the per capita GDP, an indicator of per person economic activity of the economy. Despite opening up of the life insurance sector insurance density, as measured by the per capita premium, is still very low in India compared with many of the Asian peers. According to the data released by Swiss Re it is not surprising that rich Asian countries like Japan and Singapore have better insurance density. But India's per capita premium is even lower than China. Thus, to evaluate the growth and development of life insurance sector, it is important to measure its density trend also. Life insurance density (individual business wise) has been given in Table 2 and trend line has been presented in Table 2.a and graphically shown in Graph 2.

The table 2 shows that life insurance density (individual business wise) in India during 2006-07 to 2012-13. During this period the life insurance density was highest in Chandigarh and lowest in Bihar. It was ₹ 6919.33 in Chandigarh whereas ₹ 229.5 in Bihar. The overall trend of life insurance density in the country was decreasing. As it has been depicted in the table 2.a that trend value was ₹ 652.68 in the year 2006-07 which was decreased up to ₹ 577.32 in the year 2012-13. This shows that like life insurance penetration life insurance density is also decreasing during the period of the study.

Table 2

## State Wise Life Insurance Density of Individual Business in India (in ₹)

State	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Avg.
Andhra Pradesh	641.5	703.6	599.3	672.7	709.2	596.1	559.6	640.3
Arunachal Pradesh	135.2	257.2	203.8	308.3	292.2	415.4	229.9	263.1
Assam	336.4	393.3	366.3	460.7	449.1	387.5	449.9	406.2
Bihar	193.1	238.5	229.9	278.3	241.6	213.8	211.2	229.5
Chhattisgarh	438.2	302.2	243.5	292.9	299.5	235.1	218.5	290.0
Goa	1387.9	2293.6	2574.9	3008.8	2995.0	2161.9	2096.9	2359.9
Gujarat	631.3	781.0	817.5	906.1	946.9	783.8	714.2	797.3
Haryana	672.0	710.7	535.4	607.8	656.7	489.5	535.0	601.0
Himachal Pradesh	1254.9	1495.0	1042.6	1432.3	1297.3	733.8	757.9	1144.8
Jammu & Kashmir	439.7	538.9	371.0	493.2	505.7	358.8	345.3	436.1
Jharkhand	334.0	422.7	395.3	459.0	459.8	364.3	330.9	395.1
Karnataka	651.8	868.5	724.6	794.4	800.2	653.0	624.0	730.9
Kerala	1199.9	1936.9	1237.0	1400.9	1397.4	833.7	769.0	1253.5
Madhya Pradesh	354.5	387.0	371.6	453.3	448.9	352.2	338.9	386.6
Maharashtra	689.1	1036.0	1016.9	1143.7	1135.4	955.8	975.0	993.1
Manipur	226.1	402.9	285.6	435.2	434.0	284.2	307.1	339.3
Meghalaya	172.9	312.8	278.1	299.3	308.7	213.4	239.6	260.7
Mizoram	516.3	529.7	584.6	457.7	351.3	245.5	220.9	415.1
Nagaland	228.9	217.9	239.9	366.3	277.1	526.2	246.4	300.4
Orissa	331.3	481.4	409.7	504.2	487.9	357.2	357.4	418.4
Punjab	900.3	1184.4	881.4	940.9	898.6	554.7	546.0	843.8
Rajasthan	520.2	535.4	416.5	511.2	490.1	343.8	342.3	451.4
Sikkim	900.2	1011.1	603.4	647.4	802.9	618.6	639.7	746.2
Tamil Nadu	836.7	1218.4	769.5	860.8	923.7	676.1	596.8	840.3
Tripura	411.5	560.5	457.2	627.0	659.3	311.8	381.7	487.0
Uttar Pradesh	325.0	369.2	316.4	394.7	391.8	289.8	275.4	337.5
Uttarakhand	660.9	721.4	639.7	908.6	972.1	708.7	669.5	754.4
West Bengal	434.4	613.4	652.8	860.8	850.4	645.3	580.2	662.5
Andaman & Nicobar	1324.4	1318.2	1319.0	1875.0	843.8	749.0	458.0	1126.8
Chandigarh	8755.2	8732.3	7518.4	7073.5	6966.6	4526.5	4862.8	6919.3
Delhi	2541.9	2511.4	2659.8	2830.5	2769.8	2044.4	1983.9	2477.4
Pondicherry	505.9	938.8	949.6	789.2	1013.7	607.5	603.8	772.6
All India	552.6	700.7	603.5	700.3	698.8	535.1	514.0	615.0

Source: IRDA annual report 2012-13

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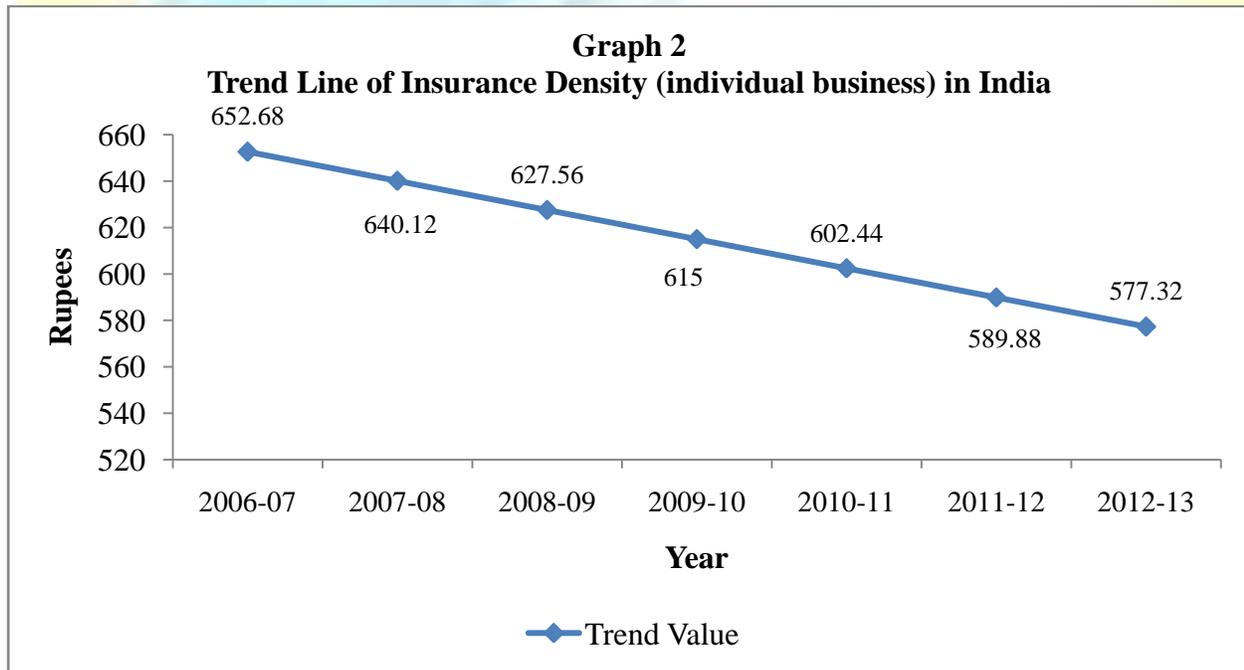
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Table 2.a

Trend Value of Insurance Density (individual business) in India

Year	Insurance Density (All India) (in ₹)	Trend Value (in ₹)
2006-07	552.6	652.68
2007-08	700.7	640.12
2008-09	603.5	627.56
2009-10	700.3	615.00
2010-11	698.8	602.44
2011-12	535.1	589.88
2012-13	514.0	577.32



Graph 2 shows the trend line of the life insurance density in all over India in the individual business. The line clearly shows the decreasing trend in the life insurance density in India during 2006-07 to 2012-13.

## CONCLUSION

Life insurance is an effective and significant tool, which helps an individual's family members in fulfilling their basic and critical requirement, so that they can live a secured life even when their loved one or the earning member of the family is not around them. The development of life insurance sector can be evaluated through life insurance penetration and density. After analyzing the data related to life insurance penetration and density, it can be concluded that the life insurance penetration and density (individual business) in India is decreasing since 2006-07. It was found that the life insurance companies are focusing only on the metros (urban area) only. Further, the life insurance penetration and density in the states like Bihar, Chhattisgarh, Arunachal Pradesh and Assam is very low as compared to Chandigarh, Delhi and Goa. The insurance sector plays an important role in the development of infrastructure of any country. This could be achieved by increasing the life insurance penetration and density in all the states equally where the life insurance awareness is low.

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