

Contribution of Life Insurance Sector in the Economy

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FLOW OF PRESENTATION



- **Structure of Insurance Industry : Snap Shot**
- **Contribution to Indian Economy**
- **Special Features**

STRUCTURE OF INSURANCE INDUSTRY

Snap Shot

Historical Perspective

- | | | |
|-------|---------------|---|
| (i) | Prior to 1956 | 242 companies operating |
| (ii) | 1956 - 2001 | Nationalisation – LIC monopoly
player – Government control |
| (iii) | 2001 -- | Opened up sector |

Present Structure of Insurance Industry

Snap Shot - Contd.

- (a) LIC – Fully owned by Government
- (b) Postal Life Insurance

- (ii) **Private players -**
 1. Bajaj Allianz Life Insurance Co. Ltd.
 2. Birla Sun Life Insurance Co. Ltd. (BSLI)
 3. HDFC Standard Life Insurance Co. Ltd. (HDFC STD LIFE)
 4. ICICI Prudential Life Insurance Co. Ltd. (ICICI PRU)
 5. ING Vysya Life Insurance Co. Ltd. (ING VYSYA)
 6. Max New York Life Insurance Co. Ltd. (MNYL)
 7. MetLife India Insurance Co. Pvt. Ltd. (METLIFE)
 8. Kotak Mahindra Old Mutual Life Insurance Co. Ltd.
 9. SBI Life Insurance Co. Ltd. (SBI LIFE)
 10. TATA AIG Life Insurance Co. Ltd. (TATA AIG)
 11. AMP Sanmar Assurance Co. Ltd. (AMP SANMAR)
 12. Aviva Life Insurance Co. Pvt. Ltd. (AVIVA)
 13. Sahara India Life Insurance Co. Ltd. (SAHARA LIFE)
 14. Shriram Sunlam

- (iii) **Other likely players** – PNB Life Insurance, Reliance Life Insurance, Axa Bharti Enterprises

CONTRIBUTION TO INDIAN ECONOMY

- (i) Life Insurance is the only sector which garners long term savings**
- (ii) Spread of financial services in rural areas and amongst socially less privileged**
- (iii) Long term funds for infrastructure**
- (iv) Strong positive correlation between development of capital markets and insurance/pension sector**
- (v) Employment generation**

Aggregation of Long Term Savings

(i) Total Assets of Life Insurance Companies

<u>2002 – 2003</u>	<u>2003 – 2004</u>	<u>2004 – 2005</u>
2,80,450	3,52,608	4,23,000 *

(ii) Total Premium generated

<u>2002 – 2003</u>	<u>2003 – 2004</u>	<u>2004 – 2005</u>
57,708 cr	66,278 cr	79000 cr *

(iii) Industry is growing @ 19 p.a.

(iv) At this growth rate, the future premium income generated will be

<u>2005 – 2006</u>	<u>2006 – 2007</u>	<u>2007 – 2008</u>
94,000	1,12,000	1,33,000

(v) Life Insurance funds account for 15% of household savings.

(vi) The industry has the potential to increase the share to 20%.

* Provisional figures.

Spread of financial services in rural areas and amongst socially underprivileged

- IRDA Regulations provide certain minimum business to be done
 - (i) in rural areas
 - (ii) in the socially weaker sections
- Life Insurance offices are spread over nearly 1400 centres.
- Presence of representative in every tehsil – deeper penetration in rural areas.
- Insurance agents numbering over 6.24 lakhs in rural areas.
- Policies sold in rural areas (2004-05) - No. of policies - **55 lakhs**
Sum assured **46,000 crores**
- Social security - No. of lives covered 2003-04 **17.4 lakhs** 2004-05 **42.1 lakhs**

Long term funds for infrastructure

- For GDP to grow at 8 to 10%, qualitative improvement in infrastructure is essential.
- Estimates of funds required for development of infrastructure vary widely.
- An investment of 6,19,600 crore is anticipated in the next 5 years (Source : SSKI India)
- Tenure of funding required for infrastructure normally ranges from 10 to 20 years.
- Major portion of these funds are routed through debt/private equity participation.

Long term funds for infrastructure

contd.

- Part funding through Central Government/State Government budgetary allocations. Insurance companies invest in Central/State Government approved securities which ultimately also used for infrastructure projects.
- As per IRDA norms, the pattern of investment of life insurance companies' funds are
 - (i) In Central Government, State Government and other approved securities
– **not less than 50%**
 - (ii) Infrastructure
– **15%**
- Investment in the infrastructure projects is a natural fit for life insurance companies who have long duration funds. Average Term of Life Policies is 23 years.
- Has investments of over Rs.40,000 cr in infrastructure.
- It is expected life insurance sector be able to generate approximately Rs.15,000 cr for infrastructure investment in 2006-2007 with amount increasing every year.

Development of Capital Markets/ Economic Growth

- Industry also contributes in economic development through investments in capital market. Present level of investments is over Rs. 40,000 crore. (Mark to Market basis around 80,000 crores).
- Annual Investment of around 9000 crores in capital markets.
- Contribution to Five Year Plans
 - 9th Plan 2,30,900 crores
 - Last Two Years 1,70,900 crores
- Helps inculcate a sense of security by protecting earning of people in case of untimely death.

Benefits to Policy Holders

<u>2002 – 2003</u>	<u>2003 – 2004</u>	<u>2004 – 2005</u>	
20,800 cr	24,200 cr	28,700 cr	*

EMPLOYMENT GENERATION

- 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 –
– No. 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.

SPECIAL FEATURES

Capital Intensive Industry

	<u>2002 – 2003</u>	<u>2003 – 2004</u>
i) Total Income	1631 cr	4053 cr
(ii) Capital employed	2219 cr	3239 cr

(Data excludes LIC)

SPECIAL FEATURES

Contd..

- Tax clubbing of various savings short term and long term into same bracket have a bias towards short term savings.
- Distinction between the short term savings and long term savings is critical from investors point of view. More prone to inflationary pressures
- Clearly, long term savings more than 10 years deserve special consideration under tax regime.

GROWTH POTENTIAL



At present insurance penetration in India is quite low – 2.26% of GDP.

In Korea the penetration stands at 6.77%, in Hongkong, in Singapore – 6.38%.

PHASE OF TRANSITION

- Life Insurance industry is under the phase of infancy after 50 years of monopoly
- Competition from within and other sectors of financial market
- Needs environmental support till it reaches a comfort zone

Thank you

