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## GLOBAL INSURANCE WITH SPECIAL REFERENCE TO INDIAN MARKET

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### ABSTRACT

*The insurance sector is very significant to every developing country. It develops the habit of savings which, in turn, generates long-term investible funds for improving infrastructural facilities. The nature of insurance business ensures constant inflow of funds and challenges such as unprecedented volatility, changing customer profiles and existing regulators. Despite the challenges ahead, opportunities for growth can be anticipated by horizontal global expansion. The insurance premium in India accounted for a mere 2% of GDP as against the world average of 7.8% and G-7 average is 9.25 during 90's. The insurance premium as a percentage of savings in India is 5.95% as compared to 52.5% in UK (IRDA, 2005).*

*The insurance market depends on a variety of economic and non-economic factors, and the future performance is difficult to predict. The forecast given in this article is not based on a complex economic model, but is intended as a guide to the direction in which the market is likely to move. This forecast is based on a correlation between past market growth and growth of base drivers, GDP growth and long-term interest rates. All currency conversions have been calculated at constant 2007 annual average exchange rates.*

### Introduction

The macroeconomic environment in 2007 across the globe was characterized by marginally slower economic growth and rising inflation driven by a steep increase in food and energy prices. Key interest rates diverged, but were generally low. Though strong at the end of 2007, stock markets fell in early 2008. In this backdrop worldwide insurance premium amounted to US Dollar 4061 billion in 2007 as against US Dollar

3723 billion in 2006. Of the total premium, life insurance premium amounted to US Dollar 2393 billion and the remaining US Dollar 1668 billion by general insurance business. At this level, the global total premium increased by 3.3 per cent in real terms in 2007 compared to 5.0 per cent in 2006. The growth in life insurance premium was about 5.4 per cent. While the premium grew by 4.7 per cent in industrialized countries, it grew by 13.1 per cent in emerging market economies. The continued

expansion of life insurance business in industrialized countries was through pension and annuities products driven by an aging population and reductions in state social security benefits. In the case of emerging economies, strong economic growth, relatively young population and an expanding middle class contributed to higher insurance sales. In emerging markets, the growth in life insurance was 13.1 per cent during 2007 as against 21.1 per cent in 2006. The profitability of life business continued to improve in many countries as costs were cut, guaranteed interest rates were reduced and profit participations was adjusted to reflect the low interest rate environment.

In modern age, insurance play a very significant role in socio-economic development of a nation in the form of programmes aiming at poverty alleviation, infrastructural development, health care and protection, employment generation etc . However, with the initiation of economic liberalization in 1991, coupled with globalization and privatization, the economic and business environment in India have changed significantly. As a result, the entire set-up has taken up a new turn, become competitive and has opened the doors for immense opportunities and intractable problems and challenges. Several issues have been waiting for effective and efficient solutions for maintaining their growth and prosperity.

The insurance sector is very significant to every developing economy. It develops the habit of savings which in turn generates long-term investible funds for improving infrastructural facilities. The nature of insurance business ensures constant inflow of funds and challenges such as unprecedented volatility, changing customer

profiles 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 90's 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 9.25 during 90's. 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.23.43 billion during the fiscal year 2004-2005, braving stiff competition from private insurers.

## II. Methodology

The nature of data which are collected and used for this research article is secondary in nature. The relevant and required data is collected from the secondary sources such as IRDA Reports, Swissre.net, Journals, Magazines and News papers.

### Objectives of the paper:

1. To review the performance of insurance sector in the global market.
2. To analyze the situation of Asia-pacific in comparison with global and Indian markets.
3. To evaluate the performance of insurance market in Indian when compare to other markets.

### Scope of the Study

Global market is considered for the present study and few regions like American, European and Asia- pacific markets have been taken, and further few countries were considered for analysis also. Like **America** comprises Brazil, Canada, Mexico, and the US, **Europe** comprises Belgium, the Czech Republic, Denmark, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Russia, Spain, Sweden and the UK. **Asia-Pacific** comprises Australia, China, Japan, India, Singapore, South Korea and Taiwan. As far as the data is concerned, it is confined for a period of five years i.e. from 2003-2007 and forecasting have been done for 2007-2012.

### III. Review of Literature

Peter Drucker (1999) admitted that by providing financial protection against the major eighteenth and nineteenth century risk of dying too soon, life insurance became the biggest financial industry of that century ..... Providing financial protection against the new risk of not dying soon enough may well become that next century's major and most profitable financial industry".

TS Rama Krishna Rao (2000) opined that 1999-2000 was a land mark year in the history of Indian insurance industry. The year 2007 was going to be another watershed for

the industry. Detariffication from first January 2007 will totally change the complexion of the non-life industry. Financial inclusion is being emphasized in various fora. The insurance industry will have to play a vital role by providing health insurance and other insurance products for the poor".

A.K. Jain (2004) revealed that "Waves of liberalization have done wonders to proper the insurance occupation to the status of a career with a bright future. The average mindset particularly of younger generation in India is very amenable to these changes in insurance as an avenue where exhilarating opportunities are opened up in changed environment".

AK Sukla (2006) reviewed that the euphoria is well earned as well look at the economic measures of liberalization initiated in insurance sector. Six years into competitive market, the Indian insurance industry exhibited a healthy growth trend of new business and market share. From total premium under written of Rs.34, 898 crore in the year 2000-01 to Rs.66, 287.93 crore in 2003-04, followed by the aggressive achievement posted at Rs.81301.40 crore in 2004-05, the life insurance industry saw the new players stabilize their operations keenly matched by LIC and the premium numbers bring out the fact that the size of the insurance market grew over the six years of liberalization".

He also views that "Since opening of insurance industry, at 2003-04, private players have brought 21.87 percentage of their new business, through referrals and direct business, a sign of harnessing the strengths of the competitive market of the respective organization. It clearly indicates the comfort zone of operation of the players. But the real operational efficiency will emerge beyond the boundaries of comfort

when they will try to expand the market share in the unfamiliar territory.

CS Rao (2007) reported that "Insurance is a vital economic activity and there is an excellent scope for its growth in the emerging markets. The opening up of the insurance sector has raised high hopes among people both in India and abroad. The recent detarrification in the non-life domain has provided a great deal of operational freedom to the players".

Sabera (2007) indicated that the Government of India liberalized the insurance sector in March 2000, which lifted the entry restrictions for private insurance players, allowing foreign players to enter into the market and start their operations in India. The entry of private players helps in spreading and keeping the operation in the Indian insurance sector which in turn results in restructuring and revitalizing of public sector companies".

Figure-1: Global Life Insurance Market Value and forecast figure for 2003-2012

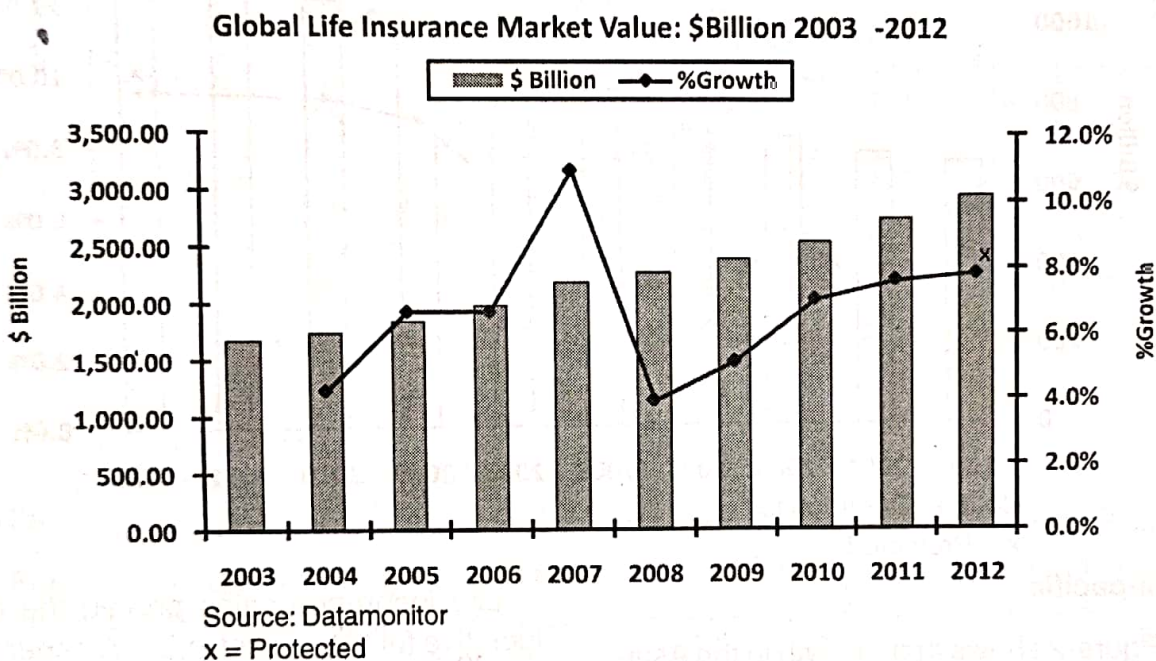


Figure-1 shows that, since 2003, the global life insurance market has posted consistent growth figures, with a slight deceleration in growth rate, this trend is expected to continue towards 2012.

The global life insurance market generated total gross written premiums of \$2,190 billion in 2007, representing a compound annual growth rate (CAGR) of 7% for the period spanning 2003-2007. In comparison, the Americas and European markets grew with CAGRs of 5.2% and

8.5%, respectively, over the same period, to reach respective values of \$641 billion and \$919.8 billion in 2007.

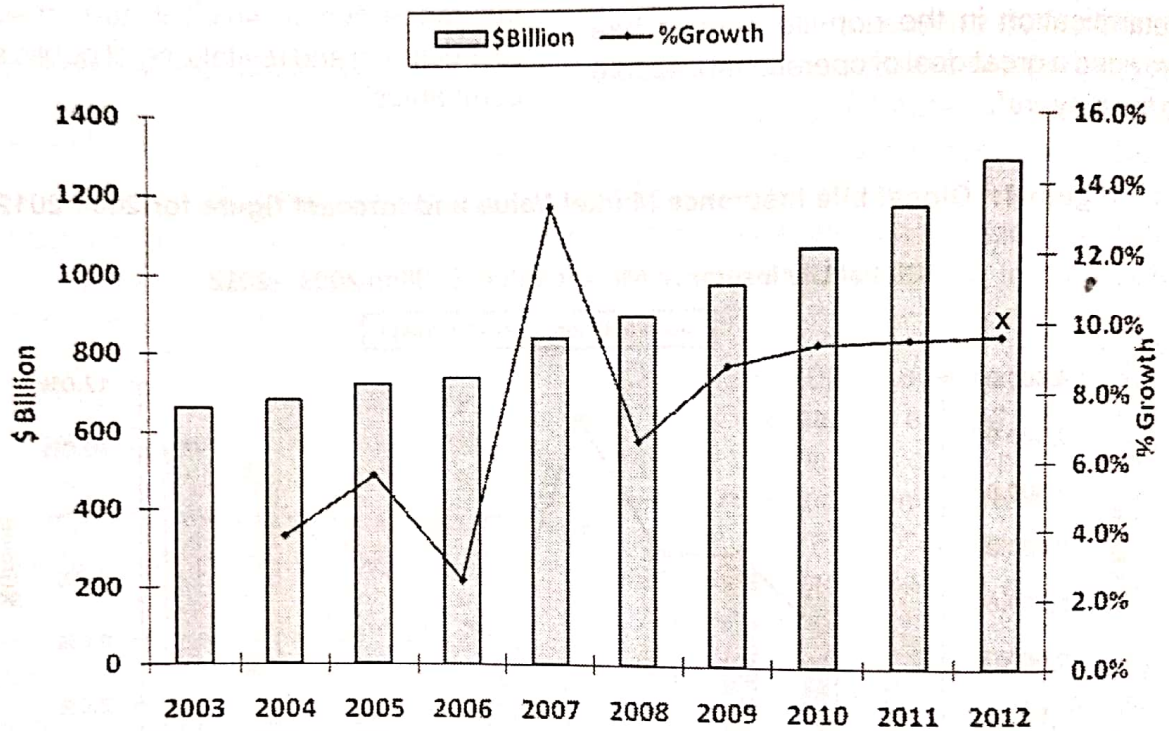
The life insurance segment was the market's most lucrative in 2007, generating total gross written premiums of \$1,166.7 billion, equivalent to 53.3% of the market's overall value. The pension/annuity segment contributed gross written premiums of \$1,023.3 billion in 2007, equating to 46.7% of the market's aggregate gross written premiums.

The performance of the market is forecast to decelerate, with an anticipated CAGR of 6.3% for the five-year period 2007-2012, which is expected to drive the market to a value of \$2966.2 billion by the end of 2012.

Comparatively, the Americas and European markets will grow with CAGRs of 5.8% and 3.6%, respectively, over the same period, to reach respective values of \$849.8 billion and \$1,100.3 billion in 2012.

Figure-2: Asia-Pacific Insurance Market Value and forecasted figure for 2003-2012

Asia-Pacific Insurance Market Value : \$ Billion, 2003-2012



Source: Datamonitor

x = Protected

### Asia-pacific

Figure-2 shows that, growth in the Asia-Pacific insurance market is expected to stabilize and continue at a healthy rate.

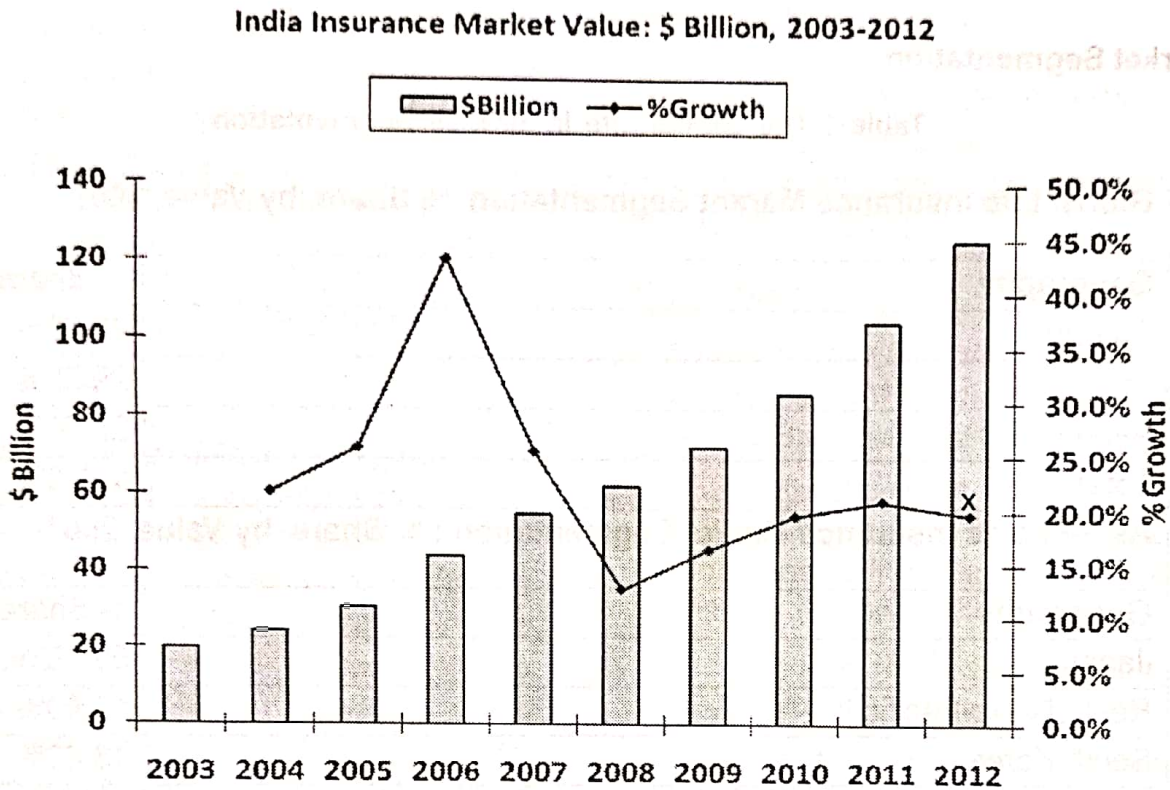
The Asia-Pacific market generated total gross written premiums of \$839.7 billion in 2007, representing a compound annual growth rate (CAGR) of 6.2% for the period spanning 2003-2007. In comparison, the Japanese and Chinese markets grew with CAGRs of 1.1% and 15.6%, respectively, over the same period, to reach respective values of \$425.7 billion and \$98.4 billion in 2007.

Life insurance sales proved the most lucrative for the market in 2007, generating total gross written premiums of \$629.2 billion, equivalent to 74.9% of the market's overall value. In comparison, sales of non-life insurance generated gross written premiums of \$210.6 billion in 2007, equating to 25.1% of the market's aggregate value.

The performance of the market is forecast to accelerate, with an anticipated CAGR of 8.8% for the period 2010-2012, which is expected to drive the market to a value of \$1,278.9 billion by the end of 2012. Comparatively, the Japanese and Chinese markets will grow with CAGRs of 6.3% and

15.5%, respectively, over the same period, to reach respective values of \$578.2 billion and \$201.8 billion in 2012.

Figure-3: India Insurance Market Value and forecast figure for 2003-2012



Source: Datamonitor  
x = Protected

## India

Figure-3 indicates that gross written premiums (GWP) in the Indian insurance market generated a total value of \$55.3 billion in 2007, representing a compound annual growth rate (CAGR) of 28.7% for the period spanning 2003-2007. In comparison, the Chinese and Japanese markets grew with CAGRs of 15.6% and 1.1%, respectively, over the same period, to reach respective values of \$98.4 billion and \$425.7 billion in 2007.

The life insurance segment proved the most lucrative for the market in 2007, generating total premium income of \$48.2 billion, equivalent to 87.1% of the market's overall value. In comparison, non-life

insurance premiums generated revenues of \$7.1 billion in 2007, equating to 12.9% of the market's aggregate revenues.

The performance of the market is forecast to decelerate, with an anticipated CAGR of 17.8% for the five-year period 2007-2012, which is expected to drive the market to a value of \$125.7 billion by the end of 2012. Comparatively, the Chinese and Japanese markets will grow with CAGRs of 15.5% and 6.3%, respectively, over the same period, to reach respective values of \$201.8 billion and \$578.2 billion in 2012.

Base upon above analysis, it can be observed that, Global and Asia-pacific have gained a CAGR of 7% and 6.2% respectively up to 2007 which is comparatively very less

than the Indian market with 28.7%. The forecasted CAGR figures for 2007-2012 shows that 6.3 % and 8.8% for global and Asia-pacific markets. Whereas for India it

is expected to be around 17.8%. This shows that there is huge untapped market in India for the insurance business.

### Market Segmentation

Table-1:The Global Life Insurance Segmentation

Global Life Insurance Market Segmentation % Share, by Value, 2007	
Geography	% Share
Europe	42.00%
Americas	29.30%
Asia-Pacific	28.70%
<b>Total</b>	<b>100.0%</b>
Asia-Pacific Insurance Market Segmentation : % Share, by Value, 2007	
Geography	% Share
Japan	50.70%
Rest of Asia-Pacific	17.40%
South Korea	13.60%
China	11.70%
India	6.60%
<b>Total</b>	<b>100.0%</b>
Asia-Pacific Insurance Market Segmentation : % Share, by Value, 2007	
Company	% Share
Life Insurance Corporation of India	55.90%
Prudential plc	3.50%
Allianz AG	2.30%
Other	38.30%
<b>Total</b>	<b>100.0%</b>

From the Table-1 it can be observed that, Europe constitutes the largest life insurance market generating 42% of the global market's gross written premiums. In comparison, Americas wrote a further 29.3% of the global market's total gross premiums. Asia-Pacific having accumulated a gross premium 28.70% is competing with Americans to increase their gross

premiums. Japan dominates the Asia-Pacific insurance market, accounting for 50.7% of the market's value. South Korea generates a further 13.6% of the regional market's value, Followed by India with a meager market of 6.6%. Life Insurance Corporation of India dominates the Indian insurance market, generating 55.9% of the market's value. Prudential plc accounts for

further 3.5% of the market's value, And Others have taken a share of 38.30% .

It is considered that, the global scenario Europe constitutes the largest life insurance market generating 42% of the global market's gross written premiums. As Asia-Pacific is concerned Japan is leading with 50.70% and India remains in the last position with 6.60%. In Indian scenario the public sector Life Insurance Corporation of India is leading with 55.90% and rest of the market shared by the other private players.

### Conclusion

With a huge population base and large untapped market, insurance industry is a big opportunity area in India for national as well as foreign investors. India is the fifth largest life insurance market in the emerging insurance economies globally and is growing at 32-34% annually. This impressive growth in the market has been driven by liberalization, with new players significantly enhancing product awareness and promoting consumer education and information. The strong growth potential of the country has also made international players to look at the Indian insurance market. Moreover, saturation of insurance markets in many developed economies has made the Indian market more attractive for international insurance players.

The performance of the market is forecast to accelerate, with an anticipated CAGR of 8.8% for the period 2010-2012, which is expected to drive the market to a value of \$1,278.9 billion by the end of 2012. Comparatively, the Japanese and Chinese markets will grow with CAGRs of 6.3% and 15.5%, respectively, over the same period, to reach respective values of \$578.2 billion and \$201.8 billion in 2012.

The performance of the market is forecast to decelerate, with an anticipated CAGR of 17.8% for the five-year period 2007-2012, which is expected to drive the market to a value of \$125.7 billion by the end of 2012. Comparatively, the Chinese and Japanese markets will grow with CAGRs of 15.5% and 6.3%, respectively, over the same period, to reach respective values of \$201.8 billion and \$578.2 billion in 2012.

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