Insurance impact assessment

Socioeconomic relevance of the sector in India in the last decade

pwc

Confederation of Indian Industry
125 Years - Since 1895

Foreword

Insurance is an industry that not only contributes to the financial growth and infrastructure development of a country but also keeps its gross domestic product (GDP) secure. Life insurance protects potential future earnings and livelihoods of individuals, and general insurance safeguards the GDP by protecting assets, businesses, health and organisational reputation against damage, both nationally through pooling and internationally through the effective transfer of risk using reinsurance.

At the end of March 2019, there were 70 insurers operating in India, of which 24 were life insurers, 27 were general insurers, 7 were standalone health insurers and 12 were reinsurers, including branches operated by foreign reinsurers and Lloyd's India.[1]

Now is a good time to check the progress, record the contributions and assess the relevance of the insurance sector in society, especially at the turn of the decade.

The social relevance of the insurance industry is unlike that of any other industry. The insurance industry directs pooled funds towards those who need them the most and acts as a massive investor in infrastructure and government bonds, thus indirectly funding large-scale government and private projects. The industry also generates large-scale employment by employing people as agents, distributors and service providers, and thus plays a fundamental role in strengthening the country's economy. In 2009–10, the life insurance industry recorded a premium income of INR 2.65 lakh crore, which increased to INR 5.1 lakh crore in 2018–19. The non-life insurance industry collected direct premiums worth INR 39,300 crore in 2009–10, which grew to INR 1.7 lakh crore in 2018–19. During the decade of 2009–2019, the life insurance industry collected a total of INR 35.26 lakh crore in premiums, while the non-life insurance industry collected INR 9.4 lakh crore as gross direct premiums.[2]

Between FY10 and FY19, claims worth INR 1.64 lakh crore were cleared by the life insurance industry. INR 5.62 lakh crore was paid out in claims by the general insurance industry during the same period.[3]

Traditionally, insurance has protected people from financial/other losses related to life, health and motor, fire and marine accidents. Over the past decade, increased awareness about insurance, competition among insurers, change in customer needs, better customer education, increased affordability and accessibility, evolution of digital and other platforms, technological advancements and regulatory push have all been responsible for a major transformation in insurance products. This has helped the industry efficiently meet the needs of the customer.

The insurance industry in India has also managed to reach formerly underpenetrated sections of the population in rural areas through Government insurance schemes such as the Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Fasal Bima Yojana and Ayushman Bharat Pradhan Mantri Jan Aarogya Yojana.

Disaster risks in India are also compounded by increasing vulnerabilities related to changing demographics and socioeconomic conditions. The Insurance Regulatory Development Authority of India (IRDAI) and the National Disaster Management Authority (NDMA) have made efforts to increase insurance penetration after the floods in Chennai (2015), Kerala (2017–2018) and northern India (2018).

1 https://www.irdai.gov.in/admincms/cms/uploadedfiles/annual%20reports/IRDAI%20English%20Annual%20Report%202018-19.pdf

2 IRDAI Handbook on Indian Insurance Statistics for 2013–14 and 2018–19

3 Ibid.

Over the past decade, the investment pattern in insurance has undergone a change. The assets under management (AUM) have increased exponentially, and through investments in Central/state government schemes, housing and infrastructure, the insurance sector has been a growing contributor to the economic development of the nation.

The insurance industry has also undergone several regulatory changes in the past decade, from relaxations by the IRDAI to ensure wider distribution and easier fundraising to initiatives by the Government leading to increased foreign direct investment (FDI) and better resolution of customer grievances. Additionally, new and better regulatory standards such as risk-based capital (RBC) and Ind AS 117 are going to be implemented in the coming years. These modifications have transformed the insurance industry in India by ensuring better disclosure, transparency and policyholder protection.

Insurance impacts lives as it creates employment opportunities to economically uplift people, provides protection and invests in Central and state government schemes. Insurance also significantly impacts poverty alleviation by providing social protection to economically weaker sections of society and preventing them from falling into debt traps.

This report covers seven socially relevant aspects of insurance, namely customer satisfaction, insurance penetration, product innovation, livelihood generation, investment in crucial sectors of the economy, protection against natural calamities and agriculture failure, and progressive regulations.

As the industry gears up to face and overcome the challenges of the next decade and works towards ensuring wider coverage and inclusivity, lessons from the past decade will prove useful. At the same, it is important to understand and celebrate the positive contributions of the sector.

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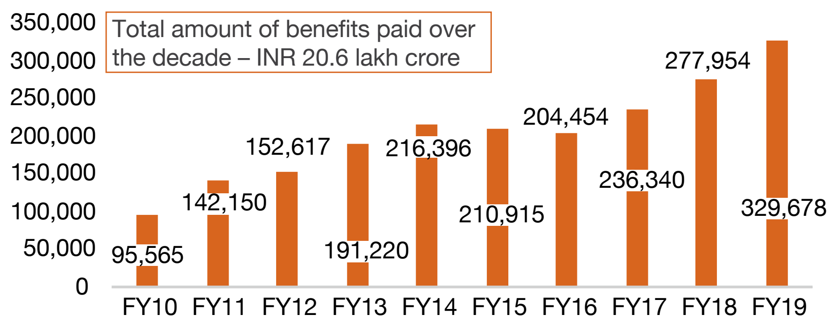
Customer satisfaction[4]

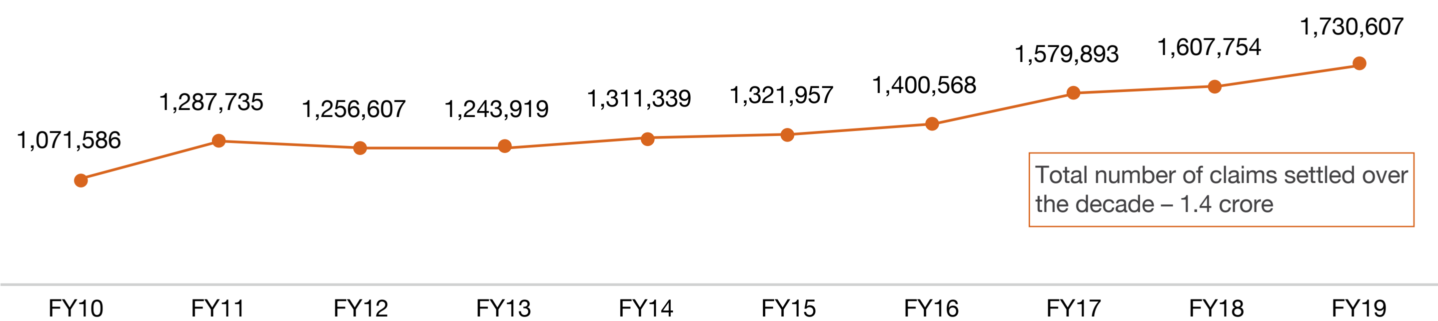
- The life insurance industry recorded a premium income of INR 5.1 lakh crore during 2018–19.
- The life insurance industry paid benefits worth INR 3.3 lakh crore in 2018–19 and INR 20.6 lakh crore between 2010–2019.
- Between 2010–2019, life insurance companies settled 1.4 crore claims on individual and group policies, with a total payout amounting to INR 1.6 lakh crore.
- The settlement ratio in the life insurance industry was at 97.6% in 2018–19 and the repudiation ratio decreased to 0.74% from 1.1% in 2017–18.

Benefits paid (in INR crore)



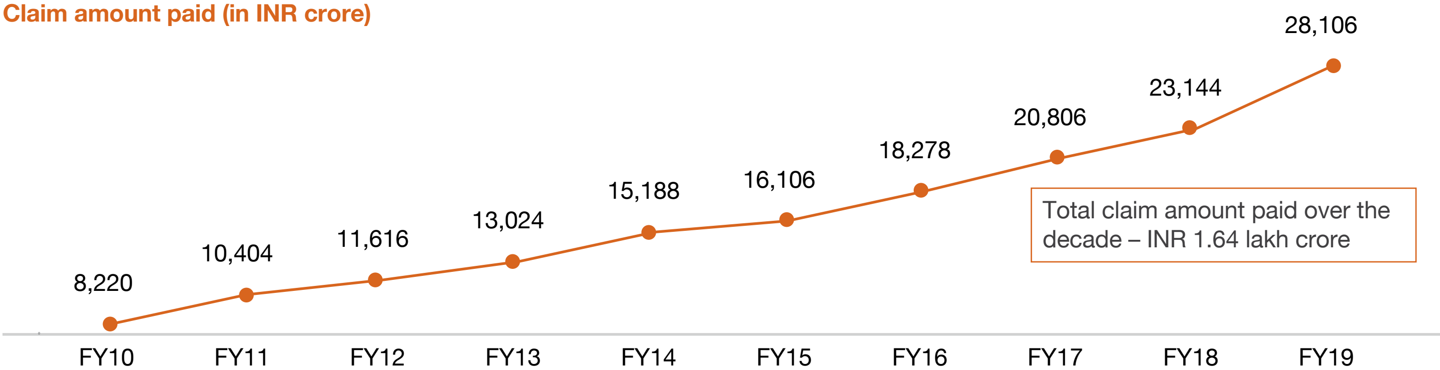
Source: IRDAI Handbook on Indian Insurance Statistics for 2013–14 and 2018–19

Number of claims settled



Source: IRDAI Handbook on Indian Insurance Statistics for 2013–14 and 2018–19

Claim amount paid (in INR crore)



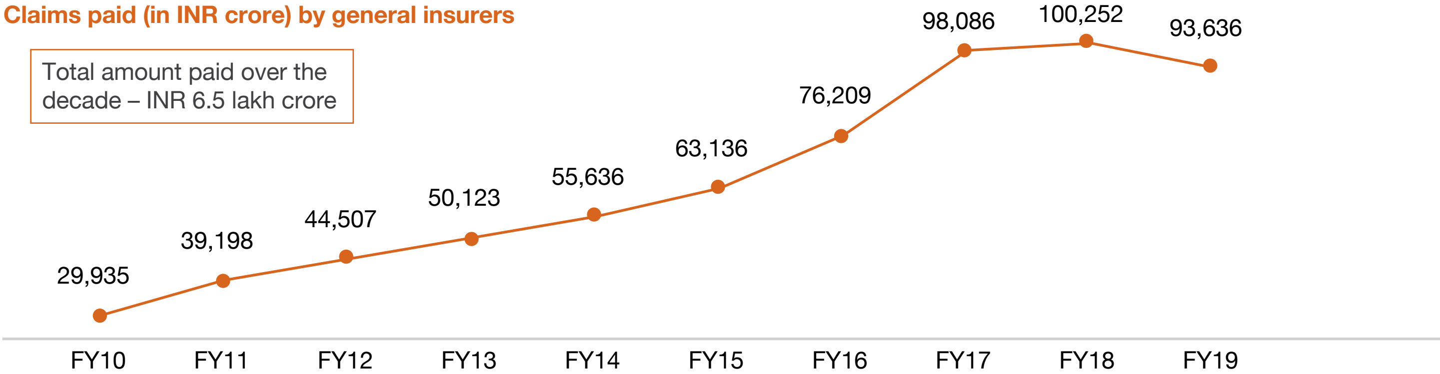
Source: IRDAI Handbook on Indian Insurance Statistics for 2013–14 and 2018–19

4 IRDAI Handbook on Indian Insurance Statistics for 2013–14 and 2018–19

The general insurance industry has underwritten gross direct premium worth INR 9.4 lakh crore in India between 2010–2019.

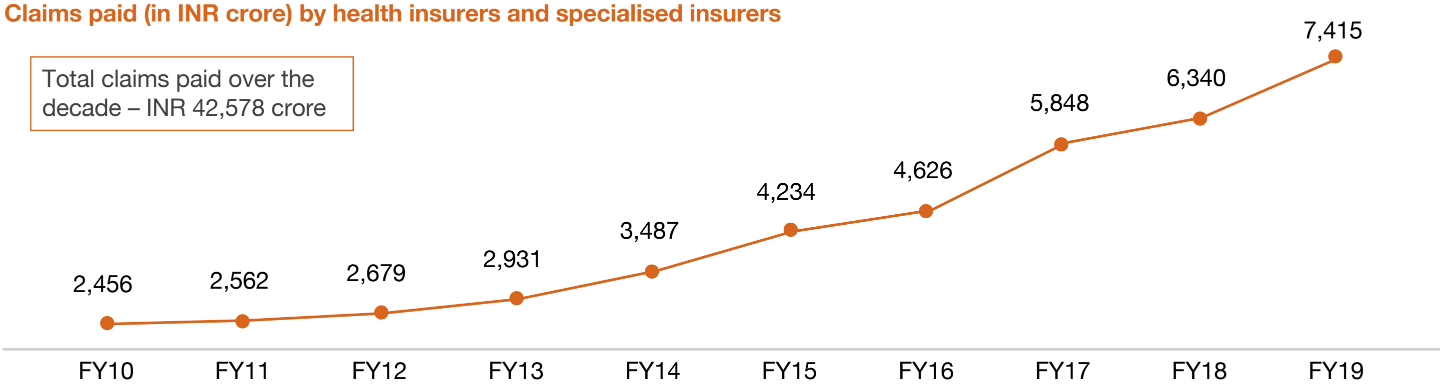
During the same period, the net worth of incurred claims of general insurers stood at INR 5.7 lakh crore. The incurred claims ratio (net incurred claims to net earned premium) of the general insurance industry was 89.16% during 2018–19.

Claims paid (in INR crore) by general insurers



Source: IRDAI Handbook on Indian Insurance Statistics for 2013–14 and 2018–19

Claims paid (in INR crore) by health insurers and specialised insurers



Source: IRDAI Handbook on Indian Insurance Statistics for 2013–14 and 2018–19

Health insurance premiums worth INR 44,873 crore were collected during FY 2018–19.

The net incurred claim ratio for health insurance was at 91% in 2018–19.

As per PwC's Health Insurance Consumer Pulse Survey, health insurance customers were largely found to have a positive outlook towards their health insurance journey.[6] They were largely satisfied with their health insurance and claims settlement experience, which challenges the conventional perception towards insurers.

General insurance companies resolved 98.65% of the complaints received during 2018–19.

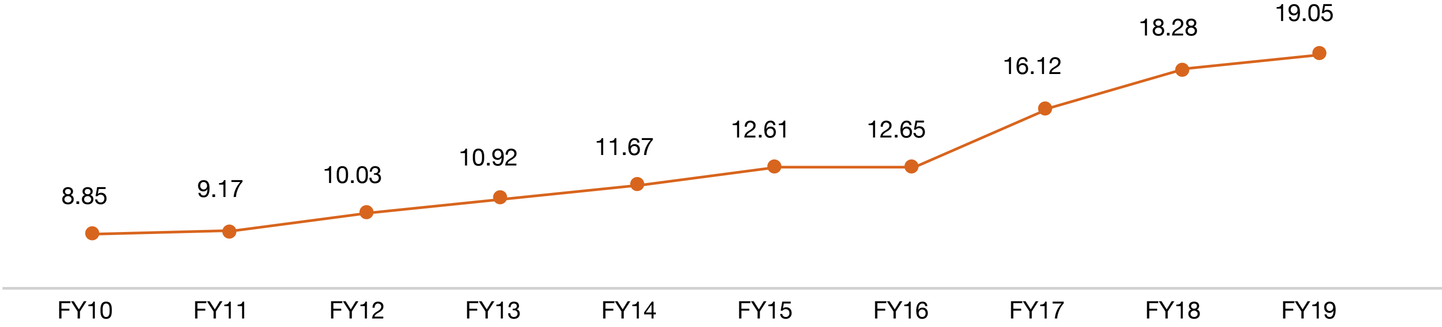
The grievances reported by customers who have availed general insurance policies have consistently fallen from 93,155 in FY12 to 43,513 in FY19. Only around 600 of the total number of grievances are yet to be resolved.

This decrease in the number of grievances is quite significant, considering that more than 19 crore new policies were issued during FY19 and the number of claims have also significantly increased in the corresponding period.

5 https://www.irdai.gov.in/admincms/cms/uploadedfiles/annual%20reports/IRDAI%20English%20Annual%20Report%202018-19.pdf

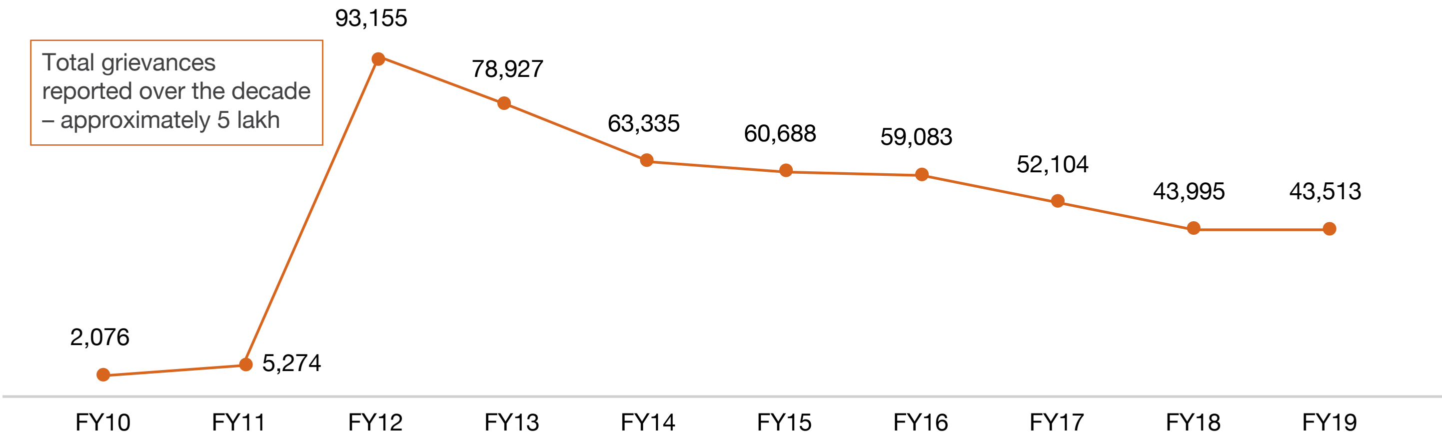
6 https://www.pwc.in/assets/pdfs/healthcare/health-insurance-consumer-pulse-survey.pdf

Number of new non-life policies issued (in crores)



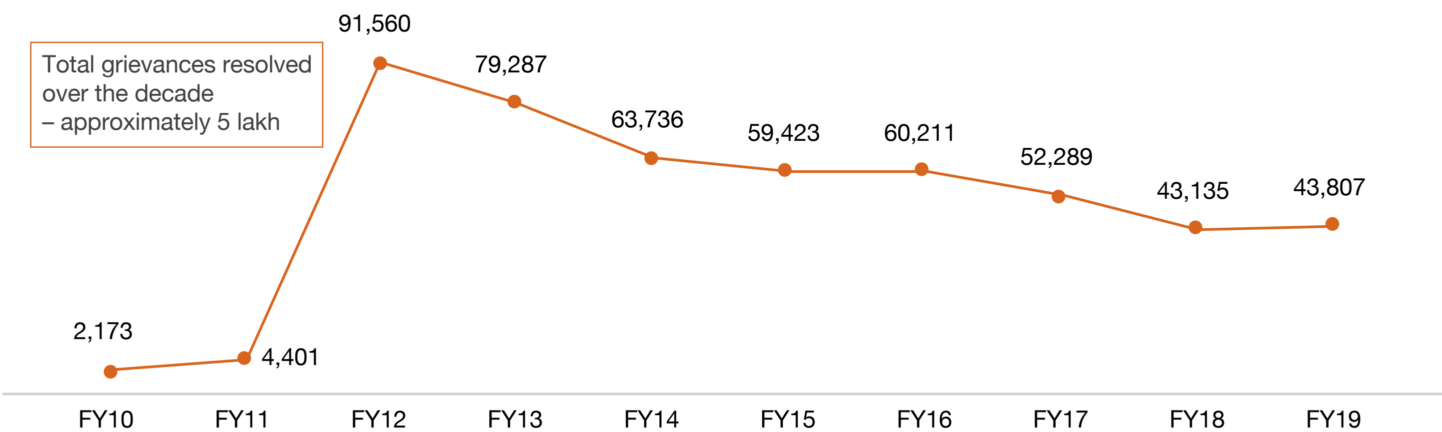
Source: IRDAI Annual Reports of 2013–14 and 2018–19

Grievances reported (for non-life insurance)



Source: IRDAI Annual Reports of 2013–14 and 2018–19

Grievances resolved (for non-life insurance)



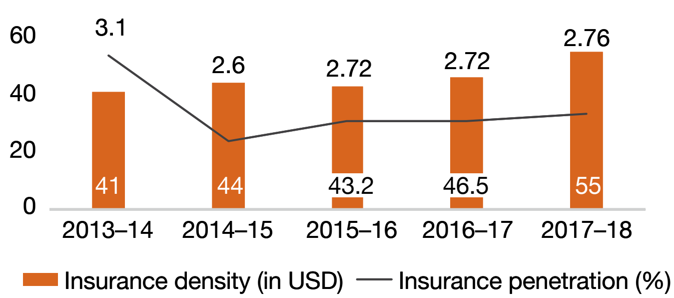
Source: IRDAI Annual Reports of 2013–14 and 2018–19

02

Insurance penetration

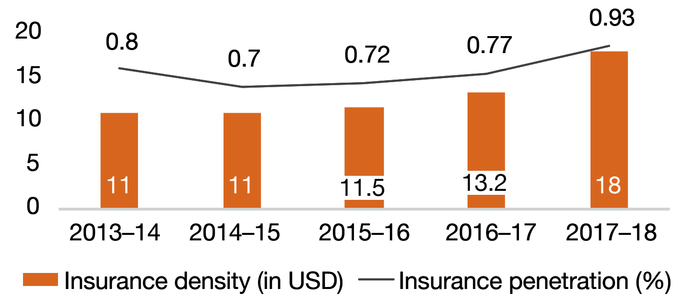
- Insurance penetration and density reflects the level of development of the insurance sector in a country.
  - Traditionally, insurance penetration is measured as the percentage of insurance premium to GDP, while insurance density is calculated as the ratio of premium to population (per capita premium).
- Insurance penetration in India at current prices has increased from 0.61% in 2009–10 to 0.89% in 2018–19.[7]
- Insurance density has increased nearly four times from INR 329 to INR 1,287 between 2009–10 to 2018–19.[8]

Life insurance overview



Source: IRDAI Annual Report 2018–19

Non-life insurance overview



Source: IRDAI Annual Report 2018–19

- India's insurance penetration volume would be significant if penetration is measured by the number of lives covered.
- Health insurance alone covers approximately 60% of the Indian population.
  - The social health insurance scheme, Ayushman Bharat-PMJAY, covers approximately 500 million people or 40% of the Indian population.[9]
  - Commercial health insurance covers approximately 10% of the Indian population.[10]
  - The Employee State Insurance Scheme covers approximately 10% of the population.[11]

7 https://www.gicouncil.in/yearbook/2018-19/wp-content/uploads/GIC_Yearbook_2018-19_.pdf

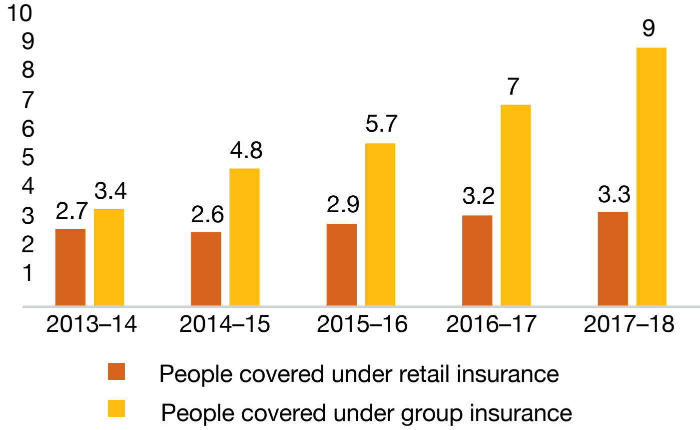
8 Ibid.

9 https://pmjay.gov.in/

10 https://www.irdai.gov.in/admincms/cms/uploadedfiles/annual%20reports/IRDAI%20English%20Annual%20Report%202018-19.pdf

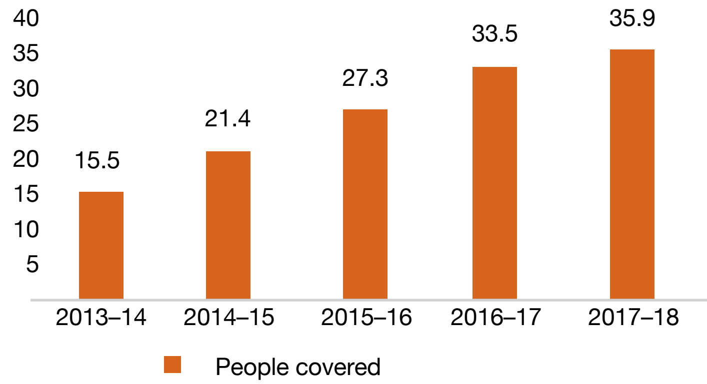
11 https://www.esic.nic.in/

Number of people covered under commercial health insurance (in crores)



Source: IRDAI Annual Report 2018–19 and General Insurance (GI) Council Yearbook 2019

Number of people covered under under the Rashtriya Swasthya Bima Yojana (RSBY) (in crores)



Source: IRDAI Annual Report 2018–19 and GI Council Yearbook 2019

03

Product innovation

In the last decade, the Indian insurance sector has undergone a transformational journey in terms of product innovation. Traditionally, insurance centres around the provision of financial cover for risks related to life, health and motor, fire and marine accidents. Over the last ten years, insurance has evolved to cover many additional risks related to travel, income protection, specific diseases, property, cyber security, mobile phones and lifestyle.

Innovation in the insurance industry revolves around finding new risk areas that have not been covered, simplifying the onboarding journey and offering affordable products that satisfy the exact needs.

Some of the innovations in the insurance sector related to product evolution are discussed below.

Expanded inclusion

Certain people, such as diabetics, who could not avail health insurance previously, are now being offered insurance products with limited exclusions. Geriatric products have ensured that age is no longer a barrier for availing insurance. Such steps have enabled insurance coverage for a section of the population that was previously excluded and that has a relatively higher need for coverage than 'non-impaired' people.

Travel insurance

Increased globalisation has led to increased travel. Multicity or multi-country travel has become a way of a life for many. With increased travelling, flight delays and baggage losses are common issues that have impacted most travellers in some form or the other. Travel insurance has been able to offer protection against these risks and that too at affordable premiums starting from as little as INR 49. The claim process for travel insurance schemes has also been simplified to ensure smooth settlement. Some insurers can settle claims related to flight delays automatically by tying up with airport authorities and thus offer a seamless experience to their customers.

The Indian Railway Catering and Tourism Corporation (IRCTC) has tied up with various general insurance companies to provide optional travel insurance for e-ticket passengers at INR 0.49 only. This offers coverage for accidental death, permanent total or partial disability and hospitalisation expenses in case of injury.

The last few years have witnessed the exponential growth of ride-hailing apps. Recognising this trend, insurers have been able to provide insurance coverage to riders for the duration of the journey, with premiums starting at a low cost of INR 1. The onboarding process is highly simple as a customer can pay the premium with a single click at the time of booking the ride. The insurance coverage is offered against loss of life due to accident, hospitalisation due to injury, missed flight for domestic travel and loss of baggage.

Bicycle insurance is also gaining prominence and insurance coverage is being provided for bicycle theft, damage and rider accident.

Bite-sized insurance offers risk coverage for a short period of time at minimal premium rates with essentially no underwriting, making the purchase of such insurance schemes extremely easy and attractive.

Cyber insurance

Cyber risks have grown exponentially across the globe and such risks have become significant for not only corporates but also individuals working from home during the ongoing pandemic or engaging in cyber activity for personal purposes. Recognising the growing need for risk coverage against cyber threats, insurers are providing coverage for financial fraud, identify theft, cyber stalking, malware attacks, phishing and cyber extortion.

E-commerce insurance

In the last few years, the e-commerce sector in India has been growing at a rate of over 50% and the insurance industry has also leveraged this platform to facilitate penetration.[12] Customers can purchase insurance for mobiles and other electronic appliances simultaneously while purchasing the products. The availability of such insurance options has resulted in awareness as well as higher penetration.

Disease-specific insurance

As opposed to insurance schemes that provide umbrella coverage for generic diseases, flexible and affordable insurance coverage is now available for specific diseases. These insurance policies can provide coverage for diseases that policyholders feel most susceptible to, such as cancer. In the early days of the COVID-19 pandemic, the IRDAI was prompt in directing insurers to come up with specific policies that would provide protection against COVID-19, even though the impact of the disease was unknown and uncertain. Other disease-specific covers like insurance for malaria and dengue are common in India.

Comprehensive insurance

Insurers offer an umbrella cover against multiple risks under one policy to increase insurance accessibility. These covers offer flexibility in identifying the risk requirements and affordability as they are effectively cheaper than individual covers. These policies can be wide enough to include protection against theft, damage or loss of personal belongings, hospitalisation, day care or home treatment and financial protection in the event of death of an individual or the entire family.

Outpatient department (OPD) insurance

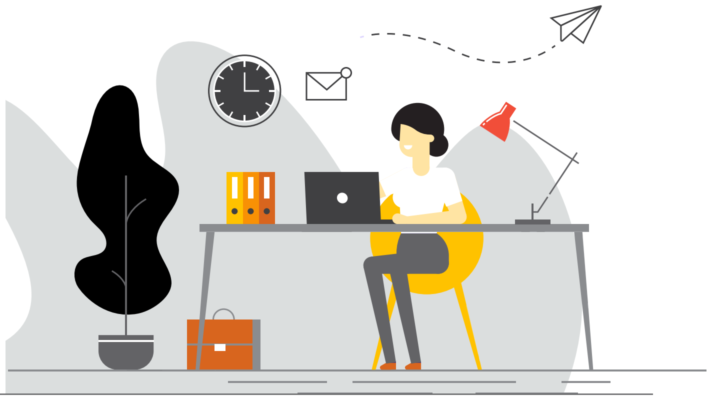
It is a recognised fact that while the OPD accounts for a considerable share of medical expenditure, outpatient treatment was not covered by insurance. Insurers have been working for the last few years to fill that gap. Some insurers have been able to provide OPD-specific products for the rural segment, along with tele-doctor facilities in areas where lack of accessibility and affordability made it difficult for people to get proper treatment. OPD insurance is expected to increase further and have a direct impact on medical accessibility and affordability.

Earlier, insurance was available only on hospitalisation. Insurers are currently also covering day care treatments or treatments which do not require hospitalisation.

A significant proportion of medical expenses is incurred on OPD treatment. OPD insurance schemes cover expenses other than hospitalisation, making it easier and more affordable to avail healthcare facilities.

Awarding fitness

Insurers are encouraging physical fitness by providing discounts and other benefits based on the fitness of the policyholder. For example, smartwatches and fitness bands are being used to monitor the health of policyholders and award them points which can be redeemed against future premiums or used to avail medical benefits.



12 https://www.ibef.org/uploads/IBEF-Annual-Report-2018-19.pdf

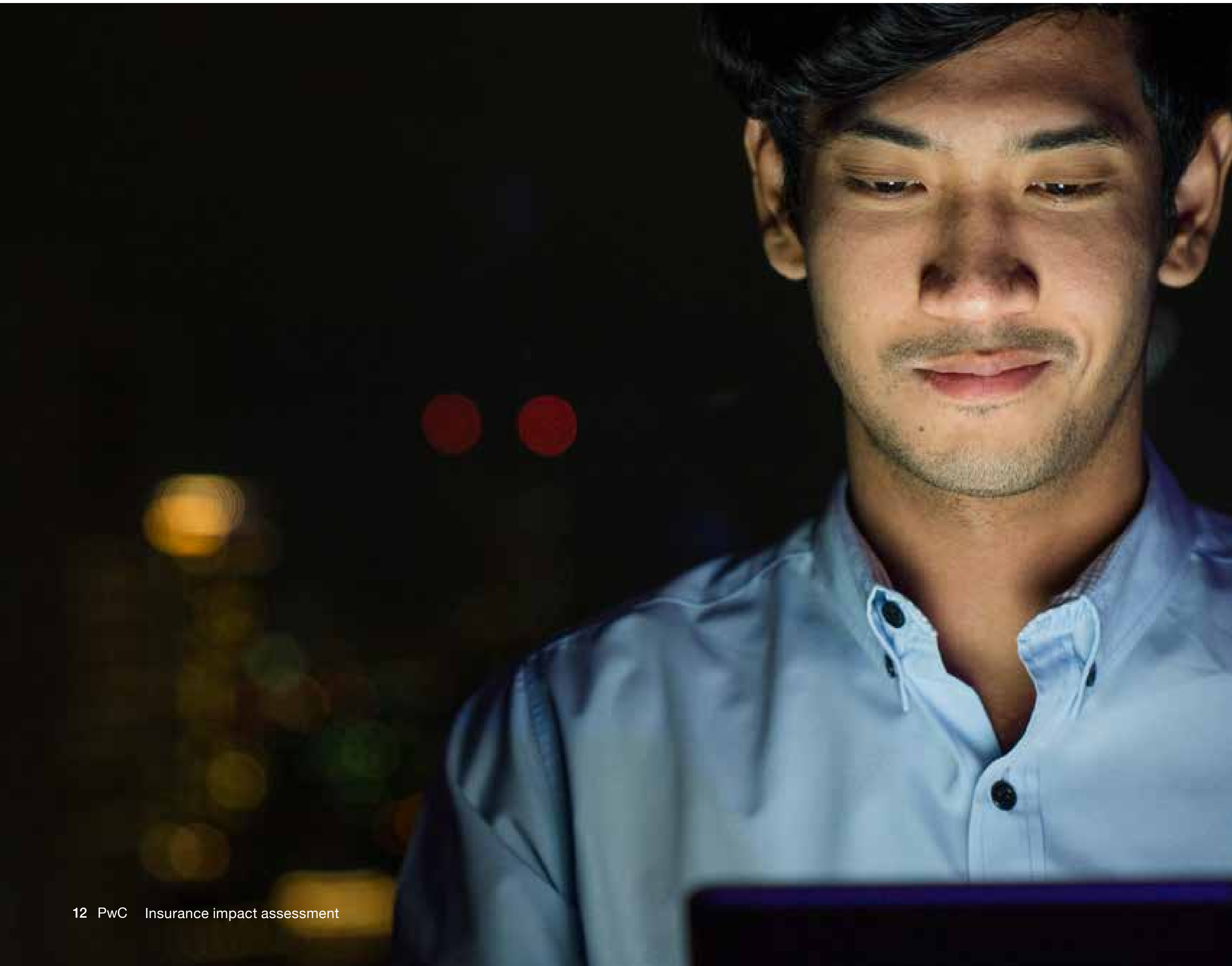
Government initiatives for wider penetration

The Government of India (GoI) has launched several insurance schemes such as Ayushman Bharat, Aam Aadmi Bima Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana and Aarogya Sanjeevani. These schemes are providing pension, term insurance, medical insurance (including cashless hospitalisation and cash benefits), accidental death or disability insurance, and loan cover, among other benefits, to the rural population of the country. Some states offer additional insurance incentives apart from the benefits offered by the Central Government. These schemes have offered highly affordable risk cover to the rural population and increased accessibility of medical treatments. The premiums of several of these initiatives are borne by the Central Government and various state governments.

Regulator as an enabler for product innovation

The regulator (IRDAI) is also trying to push innovation through a regulatory sandbox. It provides an environment for testing new business models, products, processes and applications that may not necessarily be covered fully by or are not fully compliant with existing regulations. The products will be continuously monitored for a period of 6–12 months.

According to an IRDAI press release, the regulator has approved more than 65 products via the sandbox route in the period starting from 1 February 2020. Some of the innovations that have come through are multi-vehicle coverage, vehicle usage based floater policy, insurance as a gift, livelihood protection during pandemics and some outpatient coverage.

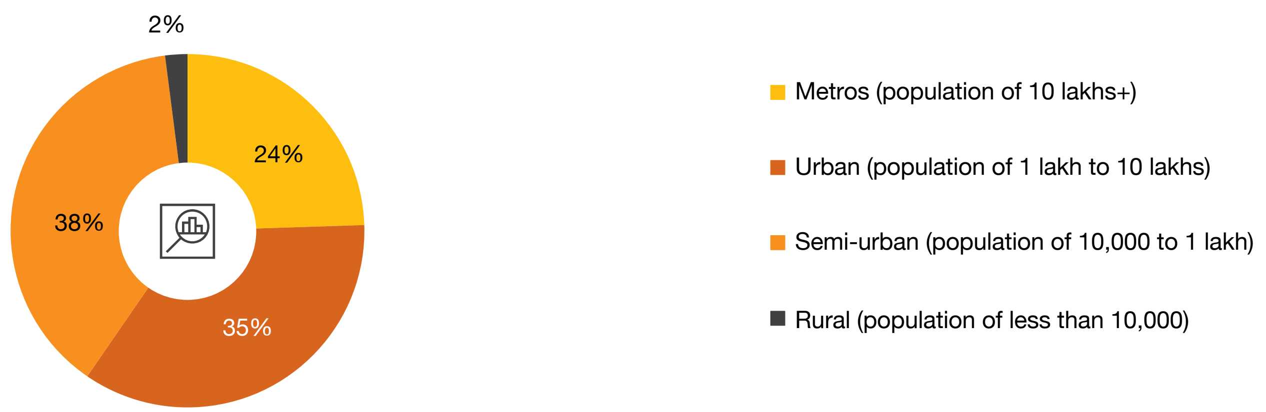


Livelihood generation[13]

- In 2018–19, the entire insurance industry consisted of a network of 22,854 offices across India.
- Almost 40% of these offices are located in Tier 2 cities and below, thus generating employment beyond the metros.
- The number of offices for general insurance has almost doubled from 6,075 in 2010 to 11,575 in 2019.
- The number of persons directly employed by the sector went up from 92,135 in 2010 to 135,308 in 2019.
- Indirect employment in the form of temporary, contractual and leased staff, ancillary workers and vendors is much higher.

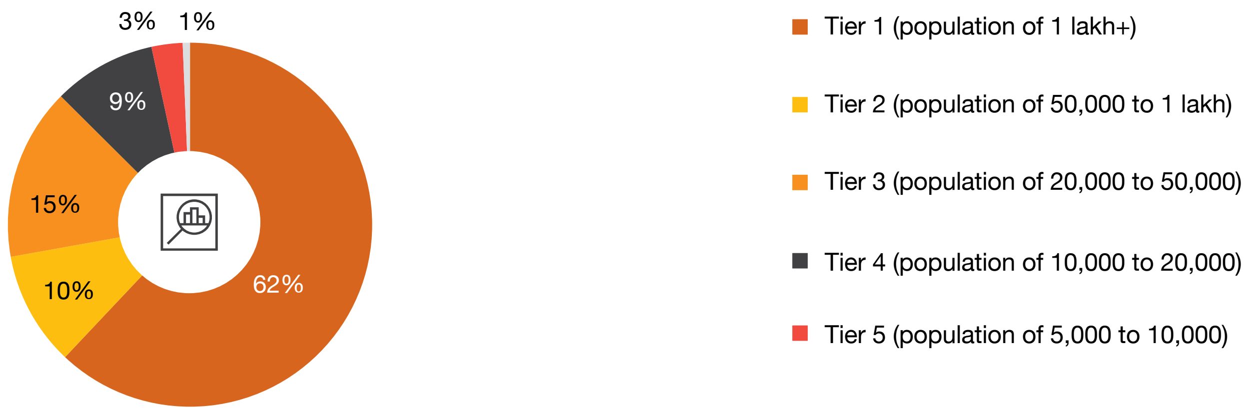
No. of offices	2010	2019
Life	11,815	11,279
Non-life	6,075	11,575

Total number of offices in 2018–19 (non-life)



Source: IRDAI Annual Report 2018–19

Total number of offices in 2018–19 (non-life)

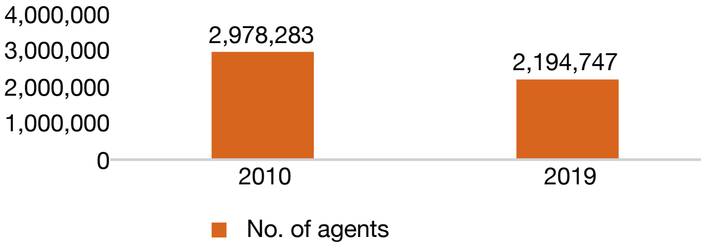


Source: IRDAI Annual Report 2018–19

13 https://www.irdai.gov.in/admincms/cms/uploadedfiles/annual%20reports/IRDAI%20English%20Annual%20Report%202018-19.pdf

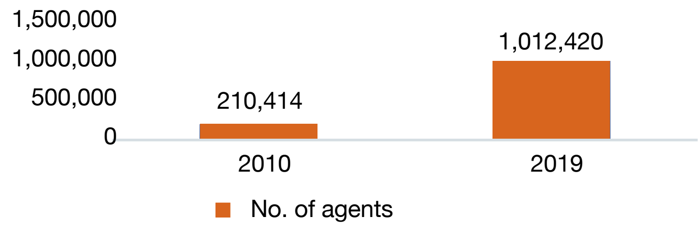
- Through agency distribution, the insurance Industry generates livelihoods for around 32 lakh agents.
- Life insurance companies have around 22 lakh agents, while general insurance companies have about 10 lakh agents.
- Agents generate income through commission on the policies they sell.

Number of agents – life insurance



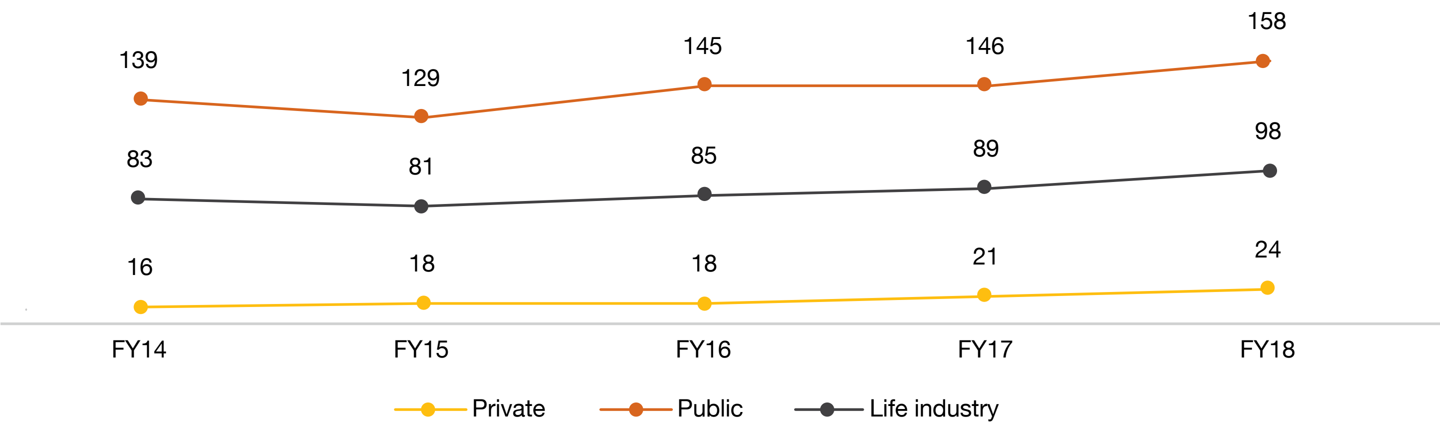
Source: IRDAI Annual Report 2018–19

Number of agents – non-life insurance



Source: IRDAI Annual Report 2018–19

Life industry commission per agent (in INR thousand)



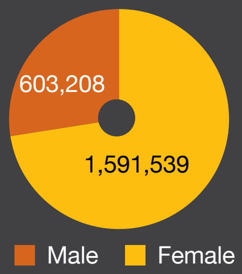
Source: IRDAI Annual Report 2018–19

- **Women's empowerment:** The industry provides a unique entrepreneurial opportunity to women to gain financial independence.
- Around 27% of life insurance and health insurance agents are female. The industry provides livelihood opportunities to around 7.5 lakh women.
- **Surveyors:** A total of 9,659 members (2,177 licentiates, 4,479 associates, 3,003 fellows) are registered under the Indian Institute of Insurance Surveyors and Loss Assessors, out of which 9,393 members were active as on 31 March 2019.[14]

14 https://iiisla.co.in/downloads/Annual_Report_2018-2019.pdf

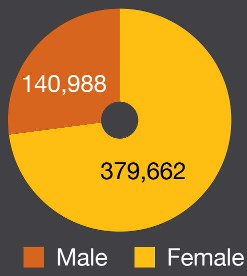
Point of sales persons (PoSPs): A total of 2,70,971 candidates were registered as on 31 March 2019.[15]

Gender-wise distribution of life insurance agents (2019)



Source: IRDAI Annual Report 2018–19

Gender-wise distribution of standalone health insurance agents (2019)



Source: IRDAI Annual Report 2018–19

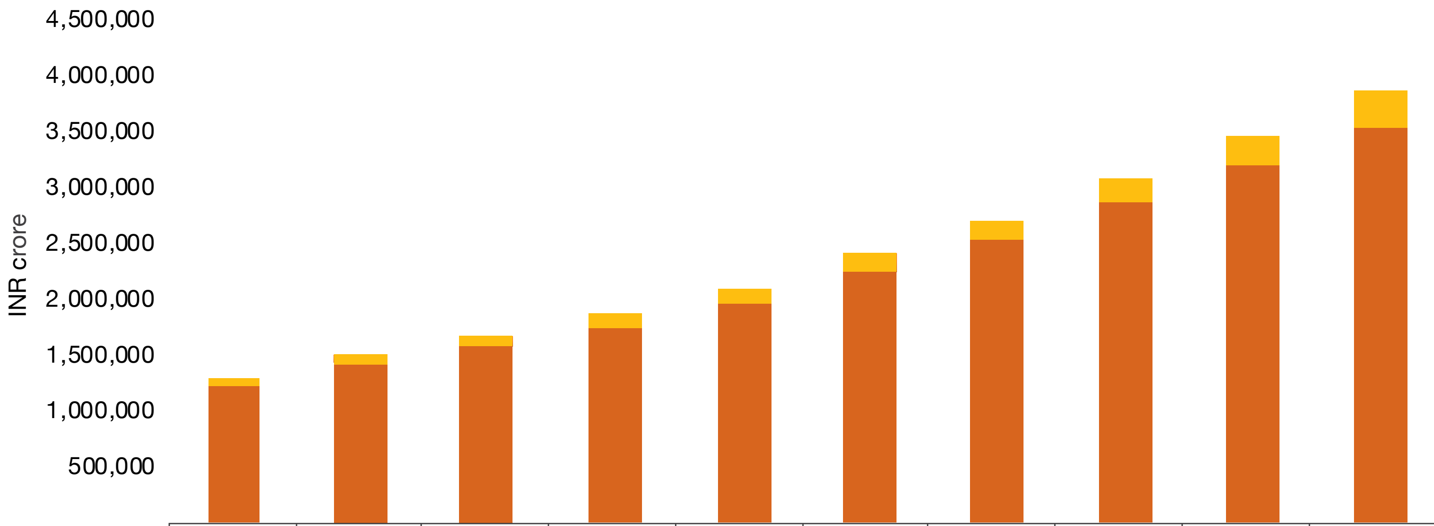
15 https://www.irdai.gov.in/admincms/cms/uploadedfiles/annual%20reports/IRDAI%20English%20Annual%20Report%202018-19.pdf

05

Investment

Over the past decade, the pattern of investments made by insurers went through a change. The assets under management (AUM) growth has been 190% for life insurance companies and 374% for non-life insurance companies.

Life and non-life insurance investment



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Non life	66,372	82,520	99,269	122,992	139,809	160,714	188,126	222,344	268,929	314,331
Life	1,212,458	1,430,118	1,581,259	1,744,894	1,957,466	2,247,522	2,502,068	2,854,193	3,189,060	3,533,143

Source: https://shodhganga.inflibnet.ac.in/bitstream/10603/110787/13/13_chapter4.pdf

In the past ten years, insurance companies have increased their investment in housing, infrastructure, Central Government and state government schemes, as shown in the table below:

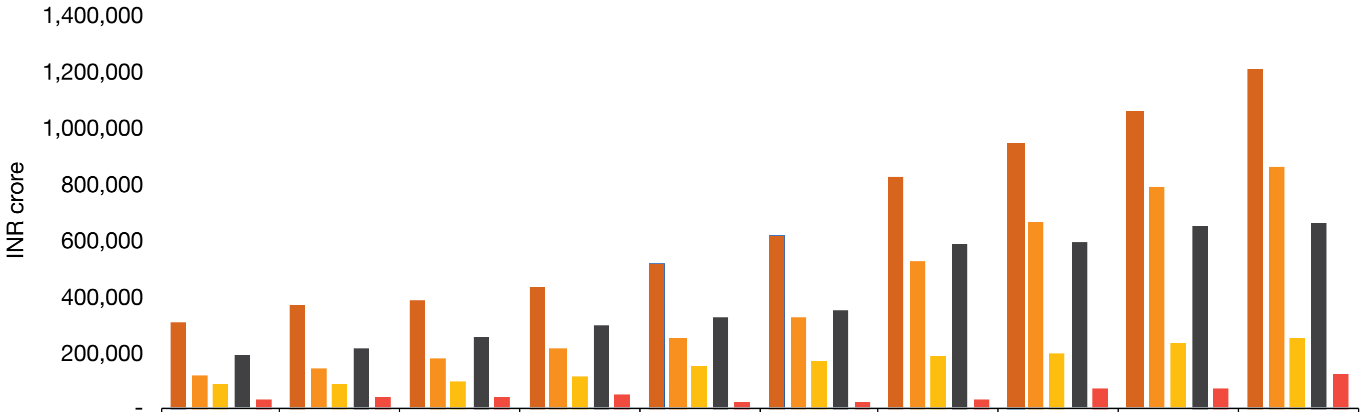
Type of investment INR crore

Investment	Increase in investment in the past decade
Central Government securities	974,243
State government or other approved securities	795,853
Housing and infrastructure investments	234,190
Total	2,004,286

The insurance sector accounts for 23% of infrastructure investment which contributes to the development of the country.

Life insurance

Investment pattern of life insurance companies



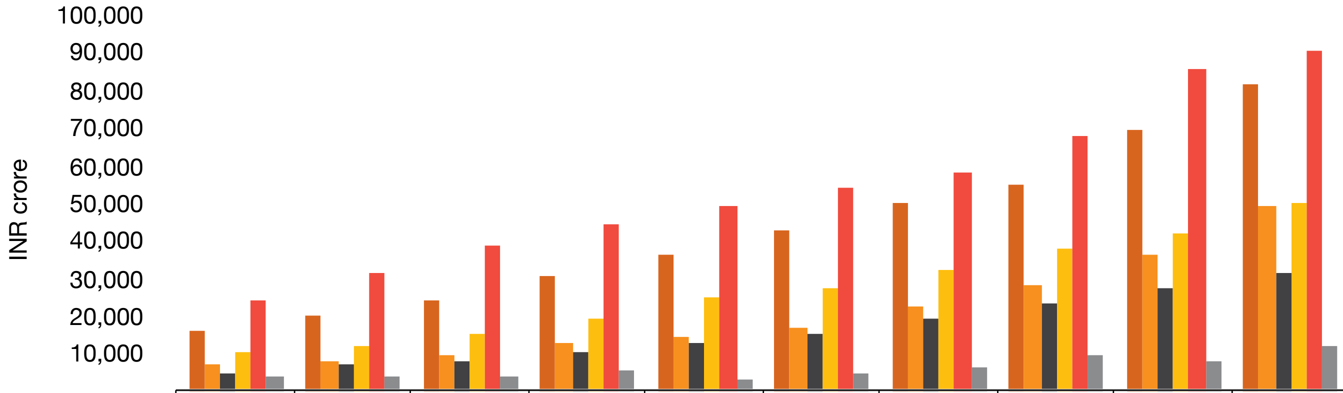
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CGS	307,096	353,376	394,780	440,991	518,824	623,293	831,049	951,214	1,069,623	1,215,622
SGS	113,644	141,358	177,933	214,457	255,469	328,729	528,206	668,430	792,475	867,521
H&I	856,75	891,81	973,20	118,878	155,026	174,511	186,112	200,438	233,327	253,187
AI	190,399	215,001	258,325	296,590	329,787	342,583	583,145	587,576	642,726	661,247
OI	34,477	42,159	46,262	49,084	29,118	26,193	33,145	66,694	72, 969	124,141

Source: https://rrjournals.com/past-issue/an-analysis-of-investment-pattern-of-Insurance-sector-in-india/

Central Government securities	CGS
State government or other approved securities	SGS
Housing and infrastructure investments	H&I
Approved investments	AI
Other investments	OI

Non-life insurance

Investment pattern of non-life insurance companies



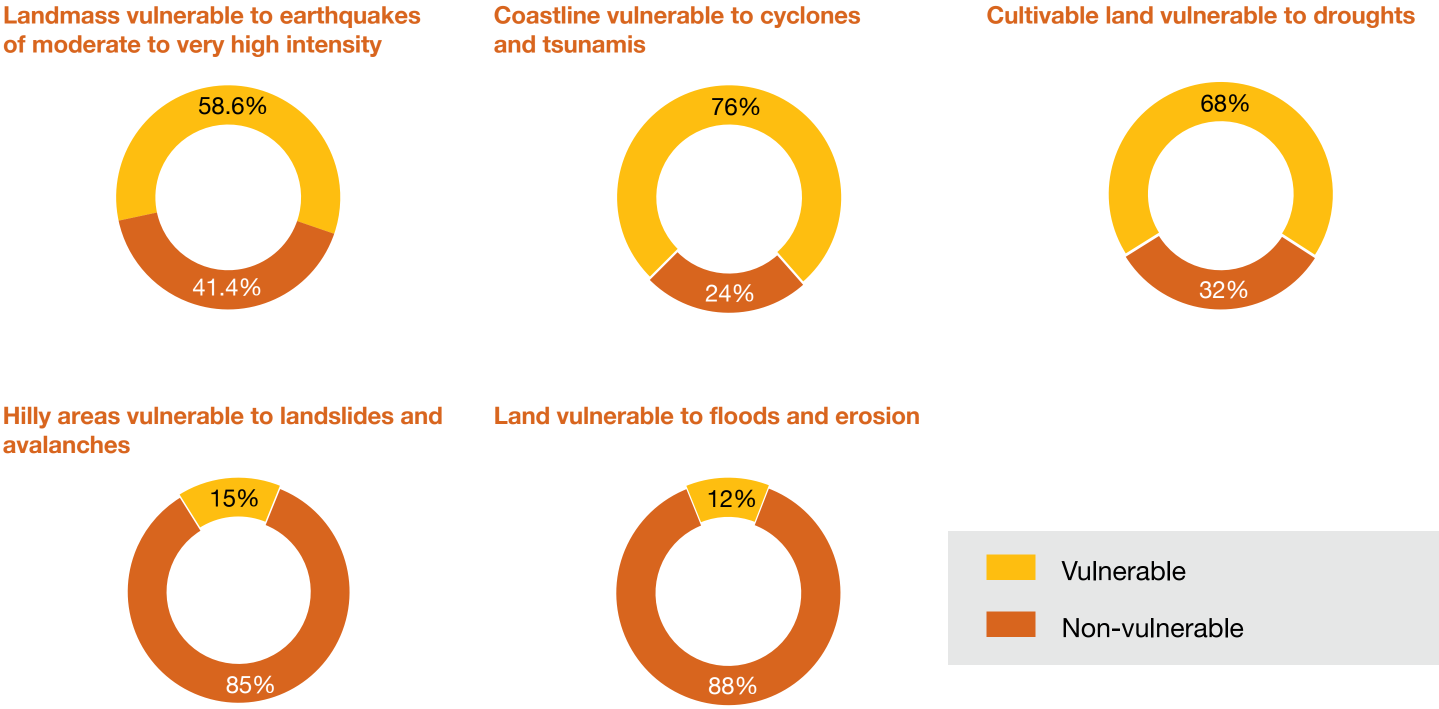
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CGS	16,038	19,865	24,241	30,658	35,877	42,904	49,994	54,754	69,315	81,755
SGS	6,971	8,191	9,339	12,987	14,326	17,120	22,160	28,239	36,549	48,948
Housing	4,790	6,973	8,179	10,275	12,742	14,834	19,503	23,480	27,554	31,770
Infra	10,373	12,216	15,198	18,997	24,544	27,277	31,946	38,172	42,322	50,070
AI	24,256	31,769	38,563	44,194	49,264	53,734	58,311	67,903	85,388	90,162
OI	3,944	3,506	3,749	5,882	3,056	4,845	6,212	9,796	7,801	11,626

Source: https://rrjournals.com/past-issue/an-analysis-of-investment-pattern-of-Insurance-sector-in-india/

Central Government securities	CGS
State government or other approved securities	SGS
Housing sector	Housing
Infrastructure investments	Infra
Approved investments	AI
Other investments	OI

Natural calamities and agriculture

Natural calamities and disaster risks through parametric insurance



Source: National Disaster Management Authority Annual Report 2018–19

A total of 5,161 urban local bodies in India are prone to flooding. Out of 36 states and union territories (UTs) in the country, 27 are disaster prone.

Disaster risks in India are compounded by increasing vulnerabilities related to changing demographics and socioeconomic conditions, development within high-risk zones, unplanned urbanisation, climate change, environmental degradation, epidemics, geological hazards and pandemics.

The IRDAI and the National Disaster Management Authority have started making efforts to increase insurance penetration after Chennai (2015), Kerala (2017–2018) and Northern India (2018) were affected by floods.

In May 2020, a leading general insurer in India signed a memorandum of understanding with the Nagaland State Disaster Management Authority (NSDMA) to provide insurance protection for the monsoon season that year.[16]

16 https://www.asiainsurancepost.com/disaster-management/disaster-financingnagalandswiss-re-tata-aig-strike-countrys-first-parametric-deal-kick-against-excess-rainfall

Crop insurance[17]

- As per the Ministry of Agriculture's annual report for the year 2010–11, the sum insured for crop insurance was INR 38,543 crore and total gross premium for the same period was INR 2,013 crore during the rabi season in 2009–10 and the kharif season of 2010 under the National Agriculture Insurance Scheme (NAIS) and Modified National Agriculture Insurance Scheme (MNAIS).
- The introduction of the Pradhan Mantri Fasal Bima Yojana (PMFBY) in 2016–17 was a game changer as far as crop insurance is considered.
- Under the MNAIS, the Government used to follow a slow and time-consuming crop cutting experiment-based method to assess crop damage. The PMFBY relies on technology like GPS, drones and satellite imagery to assess crop damage. This method ensures transparency, accuracy and saves the time and efforts of surveyors.
- Also, under the MNAIS, premium was capped at 8–12% of the sum insured. This was done to reduce the Government's expenditure on premium. As a result, for certain crops for which actuarial rates were high, insurance companies used to reduce the sum insured proportionately. Eventually, farmers complained that the compensation received in case of crop loss was lower than their cost of production. The PMFBY removed the cap on premium. The sum insured for farmers is now decided by the District Level Technical Committee and is notified by the State Level Coordination Committee on Crop Insurance.
- The PMFBY operates on an area approach, under which all farmers in an area must pay the same premium and have the same claim payments, thus reducing the risk of moral hazard and adverse selection.
- As a result of the creation of the National Crop Insurance Portal (NCIP) and other solid measures taken by the Government, the sum insured and gross premium for crop insurance grew considerably under the PMFBY.
- The sum insured for crop insurance increased to INR 230,281 crore and gross premium for the same was INR 29,359 crores during FY19 under the PMFBY.

Insights[18]

- As of March 2019, the state-owned Agricultural Insurance Corporation holds a 25.4% market share in crop insurance premium. The four public insurers enjoy an 18% market share, while 13 private players hold a 57% share.[19]
- Farmers from Maharashtra, Rajasthan, Madhya Pradesh and West Bengal constitute approximately 72% of the total farmers covered under the PMFBY.[20]
- States like Punjab, Sikkim, Manipur and Nagaland have opted out of the PMFBY, stating that premiums are too high.[21]
- Farmers in Punjab had suggested that premiums be standardised at 1% on all crops, as the state is well-irrigated and has lower crop loss than other states.[22]
- Premium rates under the National Agriculture Insurance Scheme (NAIS) and Weather Based Crop Insurance Scheme (WBCIS) were between 8–10%.[23]
- The premium under the new PMFBY (introduced in 2016) varies from 1.5%, 2% to 5% depending on the crop and season.
- Until FY19, loanee farmers were obligated to enrol in the PMFBY.[24]

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17 https://pmfby.gov.in/

18 Ibid.

19 GI Council report, April 2019

20 https://eands.dacnet.nic.in/PDF/November2019.pdf#page=35

21 https://www.thehindubusinessline.com/economy/agri-business/punjab-farmers-want-crop-insurance-only-if-it-is-a-freebie/article9014647.ece

22 https://www.tribuneindia.com/news/archive/punjab/how-centre-state-failed-farmers-on-insurance-448344)

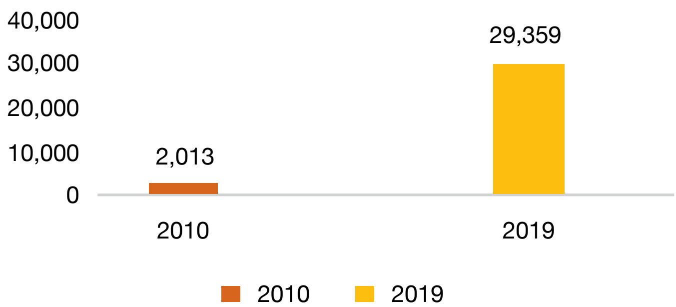
23 http://agricoop.nic.in/sites/default/files/Annual%20Report%202010-11%20English%20OK.pdf

24 https://pmfby.gov.in/

Use of modern technology[25]

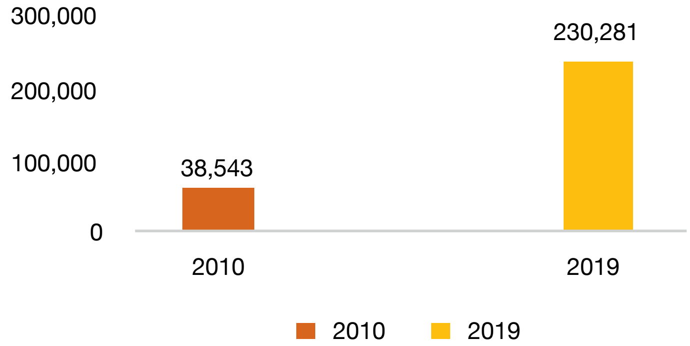
Usage of mobile-based technology and the creation of a portal for insurance registration, premium payment and claim settlement have made farmers' lives easier. Lately, the Government has been exploring the use of satellite imagery for crop loss estimation in the claim settlement process.

Crop insurance premium (in INR crore)



Source: PMFBY website and Ministry of Agriculture Annual Report 2010–11

Crop insurance sum insured (in INR crore)



Source: PMFBY website and Ministry of Agriculture Annual Report 2010–11

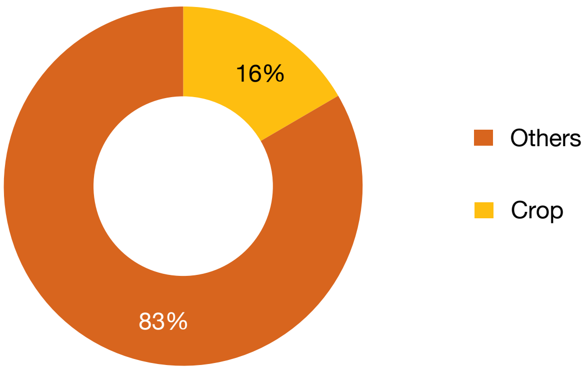
Insights[26]

- The gross premium from crop insurance increased 14.5 times, from 2013 crores under the National Agriculture Insurance Scheme in FY10 to 29,359 crores under Pradhan Mantri Fasal Bima Yojana (PMBFY) and Restructured Weather Based Crop Insurance Scheme (RWBCIS) in FY19.
- The sum insured from crop insurance increased 5.97 times, from 38,543 crores under the National Agriculture Insurance in FY10 to 230,281 crores under Pradhan Mantri Fasal Bima Yojana (PMBFY) and Restructured Weather Based Crop Insurance Scheme (RWBCIS) in FY19.
- The premium payable by farmers was just 2% of the sum insured or actuarial rate (whichever is higher) for kharif crops and 1.5% of the sum insured or actuarial rate (whichever is higher) for rabi crops.
- The difference between premium levied and amount payable by farmers is to be shared equally by the Centre and state.

25 https://pmfby.gov.in/

26 Ibid.

Crop insurance share in total premium



Source: GI Council report, April 2019

- Crop insurance contributed 16.6% of the GDP of non-life insurance companies in FY19.
- Crop insurance premium grew 11.74% year-on-year (YoY) in FY19.
- The amount of crop insurance claims paid increased 19.7% YoY, from INR 22,053 crore in FY18 to INR 26,409 crore in FY19.

Case study: Tamil Nadu[27]

- The state experienced one of its worst-ever droughts in 2016–17. For the rabi season, the total claims paid to farmers in the state was INR 2,414 crore as against premiums of INR 1,232 crore, with a premium-to-clam ratio of 1.96.
- As per the PMFBY guidelines, yield data on crop cutting experiments was given to insurance companies on time and the state government's share of premium was also disbursed to the insurers on time.

Global scenario

North America holds the largest share (approximately 51%) of the global agricultural crop insurance market.[28]

Way forward

The worldwide market for agricultural crop insurance is expected to grow at a CAGR of roughly 4.4% over the next five years. It is expected to reach USD 34 trillion in 2024, from USD 26.3 trillion in 2019.[29]

27 https://www.econstor.eu/bitstream/10419/176379/1/Working_Paper_352.pdf#page=27

28 https://www.marketwatch.com/press-release/agricultural-crop-insurance-market-2020-top-countries-data-market-size-defination-brief-analysis-of-global-industry-with-forecast-growth-by-2024-2020-08-10

29 https://www.marketwatch.com/press-release/agricultural-crop-insurance-market-2020-top-countries-data-market-size-defination-brief-analysis-of-global-industry-with-forecast-growth-by-2024-2020-08-10

Regulations

In the past ten years, the Government and IRDAI have made efforts to encourage insurers to come up with innovative products to increase insurance penetration, while at the same time ensuring policyholder protection and sufficient company solvency through disclosure requirements.

2010

IRDAI allowed the appointment of a referral company

2013

Web aggregators were introduced as a channel to sell insurance products

2015

- Government passed the Insurance Laws (Amendment) Act
- Introduction of insurance marketing firms by IRDAI

2016

PoSPs were allowed to sell simple insurance products

2017

- IRDAI introduced the Insurance Self Network Platform
- Insurance companies allowed to raise funds through IPO

2017

Central Government notified the Insurance Ombudsman Rules

2018

Motor insurance service provider (MISP) introduced by IRDAI as a channel

2020

IRDAI mandated coronavirus covers and monitored solvency monthly to effectively handle the COVID-19 pandemic situation

Source: IRDAI

- The IRDAI has enabled insurers to get access to a wider distribution network through its guidelines and regulations.
  A wider distribution network allows insurers to cater to areas which they previously did not have access to. Inclusion of web aggregator and Insurance Self Network Platform (ISNP) has provided a quick and easy way to eliminate excessive documentation.
- **Initial public offering (IPO):** In 2017, IRDAI relaxed its capital-raising norms, allowing insurance companies that have completed ten years to raise funds through IPO. Since then, three life and three non-life insurers have listed themselves, and many others are expected to do so.
  Allowing insurance companies to raise funds through IPO opens a new category of investment for investors. Also, once these companies are listed, they need to adhere to various disclosure requirements, which leads to transparency and higher accountability.
- **Insurance Laws (Amendment) Act, 2015:** This bill was passed with the aim of removing redundant provisions and providing more flexibility to the IRDAI to carry out its functions effectively.
  It increased the **foreign direct investment** (FDI) limit in insurance companies from 26% to 49%, which helped several insurers gain more capital infusion. In the Union Budget of 2019–20, 100% FDI was permitted in insurance intermediaries to encourage international practices around selling strategies and new products. The higher FDI limit has strengthened the insurance sector by providing capital and enabled it to underwrite new business. Additionally, growth of the insurance sector leads to higher employment.
- **Redressal of public grievances:** In 2017, the Central Government notified the Insurance Ombudsman Rules, with the aim of resolving all complaints related to insurance, agents and intermediaries in an effective and unbiased manner. This will help the public gain confidence in the insurance industry and ensure better customer satisfaction.
- **COVID-19:** During the COVID-19 pandemic, the regulator has been proactive in ensuring that policyholders have the required coverage. Coronavirus-specific covers were mandated, and monthly solvency was monitored by the IRDAI. Also, several steps were taken to ease claim applications and onboarding of new policyholders.[30]

Regulatory changes of the future

Risk-based capital (RBC)

In 2017, the IRDAI formed a committee and issued a report to implement the globally consistent RBC approach and market-consistent valuation of liabilities.

Ind AS 117

The IRDAI is looking to enforce Ind AS 117 in the near future.It is expected to be consistent with the IFRS 17 standard being implemented by insurance companies around the world.

Both RBC and Ind AS 117 are expected to be rolled out at the same time. Implementation of both enables the following:

- evaluation of solvency while considering the inherent risks of a company
- increased focus on transparency from insurers
- greater focus on and evaluation of risks of a company, leading to policyholder protection
- more risk-sensitive design which reveals a company's true financial position
- consistency with international insurance capital standards, enabling comparison with insurance companies around the world.

30 https://financialservices.gov.in/Insurance-divisions/Major-initiatives

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government and civil society, through advisory and consultative processes.

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With the Theme for 2020-21 as Building India for a New World: Lives, Livelihood, Growth, CII will work with Government and industry to bring back growth to the economy and mitigate the enormous human cost of the pandemic by protecting jobs and livelihoods.

With 68 offices, including 9 Centres of Excellence, in India, and 9 overseas offices in Australia, China, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with 394 counterpart organizations in 133 countries, CII serves as a reference point for Indian industry and the international business community.

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