INSURANCE AND PENSION FUNDS

Insurance

5.97 The insurance sector was opened up for private participation with the enactment of the Insurance Regulatory and Development Authority Act, 1999. While permitting foreign participation in the ventures set up by the private sector, the Government restricted participation of the foreign joint venture partner through the FDI route to 26 per cent of the paid-up equity of the insurance company.

New entrants

5.98 Since opening up, the number of participants in the sector has gone up from six insurers (including the Life Insurance Corporation of India, four public sector general insurers and the General Insurance Corporation (GIC) as the national re-insurer) in the year 2000 to 37 insurers operating in the life, non-life and re-insurance segments as at December 2007. This includes specialized insurers, viz., Export Credit Guarantee Corporation; Agricultural Insurance Company and two stand-alone health insurance companies. Of the 17 life insurance companies, as many as 15 are in joint venture with foreign partners. Of the 10 insurers which have been set up in the non-life segment, 9 are in collaboration with the foreign partners. In addition, two stand-alone health insurance companies have been set up in collaboration with joint venture foreign partners. Thus, as on date, 26 insurance companies in the private sector have been granted registration in the country in collaboration with established foreign insurance companies from across the globe.

Industry Development

Life insurance industry

5.99 The total premium underwritten by the industry has grown from Rs. 34,898 crore in 2000-01 to Rs. 1,56,041 crore in 2006-07. The first year premium, which is a measure of new business secured, underwritten by the life insurers during 2006-07 was Rs. 75,617 crore as compared to Rs. 9,708 crore in 2000-01. During the current year, the life industry has reported growth of 1.41 per cent in new business premium underwritten during the period April to November 2007. The first year premium underwritten during the period under report was Rs. 44,696 crore as against Rs. 44,073 crore in the corresponding period of the previous year.

Non-life insurance industry

5.100 The non-life insurers (excluding specialized institutions like ECGC and AIC) underwrote premium within India to the tune of Rs. 24,905.47 crore in 2006-07, as against Rs. 9,807 crore in 2000-01. Two of the fastest growing segments are motor and health accounting for 42.73 and 12.77 per cent of the premium underwritten in India in 2006-07. The premium underwritten in these two segments alone in 2006-07 was Rs. 11,080 crore and Rs. 3,311 crore, respectively. During the current year, the non-life insurers underwrote premium of Rs. 18,509 crore during April to November 2007 as against Rs. 16,560 crore in the corresponding period of the previous year. Post-de-tariffing, while the growth in premium has slowed down on account of reduction in rates, the number of policies underwritten has shown an increase.

Penetration and density

5.101 The potential and performance of the insurance sector is universally assessed in the context of two parameters, viz., insurance penetration and insurance density. Insurance penetration is defined as the ratio of premium underwritten in a given year to the GDP. Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in US$ for convenience of comparison). The insurance penetration was 2.32 (life 1.77 and non-life 0.55) in the year 2000 when the sector was opened up to the private sector, and has increased to 4.80 in 2006 (life 4.10 and non-life 0.6). The increase in the levels of insurance penetration has to be assessed against the average growth of over 8 per cent in the GDP in the last three years. Insurance penetration in some of the emerging economies in Asia, i.e., Malaysia, Thailand and China, during the same period was 4.9, 3.5 and 2.7, respectively. The insurance density in India was US$ 9.9 in 2000 which has increased to US$ 38.4 in 2006. The comparative figures for Malaysia, Thailand and China during the same period were US$ 292.2, US$ 110.1 and US$ 53.5, respectively.

5.102 The Insurance Regulatory and Development Authority (IRDA), set up under the statute, is the regulator for the insurance sector. During 2007-08, the IRDA has carried forward the process of de-tariffing of the general insurance sector, creation of the motor pool effective April 1, 2007, implementation of the micro-insurance regulations, and amendments to the obligations towards the rural and social sectors.

Policy Developments

5.103 Several policy initiatives were taken in the insurance sector during 2007 (Box 5.1). To further deregulate the insurance sector, IRDA had done away with the tariffs on the rates of general insurance products from January 1, 2007. This measure was aimed at providing better choices to policyholders, differentiated rates consistent with the level of risks borne as well as overall improvement in risk management.

Box 5.1 Recent initiatives taken in the insurance sector

In the insurance sector the major policy initiatives included:

- De-tariffing of the general insurance industry
- Obligations towards the rural & social sectors
- Micro-insurance

5.104 The IRDA (Obligations of Insurers towards the rural and social sectors) Regulations, 2002, had laid down the obligations of the insurers for the first five years of operations. Amendments to the regulations incorporating the obligations of the insurers up to the tenth year and thereafter have been notified during 2007.

5.105 IRDA has advised all insurance companies to furnish details of the initiatives taken to promote micro-insurance as a viable business opportunity, with particular reference to understanding the constraints faced by them. With a view to synergizing the efforts of all State Governments which are promoting the poverty alleviation programmes, the IRDA has requested the State Governments to publicize the concept of micro-insurance through their various agencies.

Pension Sector: Highlights

5.106 The pension sector essentially encompasses the organized sector. The majority of the country's workforce in the unorganized sector has no access to formal channels of old-age income support. Only about 12 per cent of the working population in India is covered by some form of retirement benefit scheme. Besides the problem of limited coverage, the existing mandatory and voluntary pension system has been characterized by limitations like fragmented regulatory framework, lack of individual choice and portability, lack of uniform standards, low real rate of returns, etc. India's need for comprehensive reforms in the pension system is thus self-evident.

5.107 The major developments in the pension sector include the introduction by the Government of the New Pension System (NPS) from January 1, 2004, through a notification dated December 22, 2003, for new entrants to the Central Government service, except to the Armed Forces of the Union. The Government has constituted a regulatory body, namely, the Pension Fund Regulatory and Development Authority (PFRDA).

5.108 The main feature of the NPS is based on defined contribution. New entrants to the Central Government service contribute 10 per cent of their salary and dearness allowance (DA), which is matched by the contribution by the Central Government (Tier-I). Once the NPS architecture is fully in place, employees will have the option of a voluntary [Tier-II) withdrawable account (in the absence of the facility of General Provident Fund (GPF)] to which Government will make no contribution. Employees will normally exit the system at or after the age of 60 years. At the time of exit, it is mandatory for them to invest 40 per cent of the pension wealth to purchase an annuity to provide a lifetime pension for the employee and his dependents. The remaining 60 per cent will be paid to the employee in lump sum at the time of exit. Individuals would have the flexibility to leave the pension system prior to the age of 60. However, in this case, mandatory annuitization would be 80 per cent of the pension wealth. The new system will have a central record keeping and accounting infrastructure and several fund managers to offer investment options with varying proportions of investment in fixed-income instruments and equity.

5.109 The Pension Fund Regulatory and Development Authority Bill, 2005, was introduced in Parliament on March 21, 2005. It has been approved by the Standing Committee on Finance which recommended its passage with certain modifications. This is under consideration of the Government.

5.110 As per data available (as on February 1, 2008), approximately 2.85 lakh employees were covered under the NPS. An amount of approximately Rs. 1,177 crore, including the Government contribution and interest component has been credited into the pension account. Nineteen State Governments have also notified similar schemes for their new recruits.

5.111 The PFRDA has appointed three sponsors for pension funds for managing the corpus under the New Pension System for the Government employees after due consideration. These are the State Bank of India, UTI Asset Management Company Private Limited and Life Insurance Corporation of India. They have incorporated the pension funds as companies under the Companies Act, 1956. The entire architecture of the NPS is expected to be operationalized by May 31, 2008. The accumulation and contribution of subscribers of NPS would be invested as per the investment guidelines prescribed for the non-government provident funds. An alternate option of investing 100 per cent of the corpus in the Government securities would also be available to the subscribers.