



## Insurance Sector in India

**For Prelims:** [Insurance](#), [Insurance Regulatory and Development Authority of India \(IRDAI\)](#), [GDP](#), [Foreign Direct Investment](#), [GST](#), [Financial Literacy](#), [Insurance for All by 2047](#), [Statutory Body](#), [Bima Sugam](#), [Bima Vahak](#), [Bima Vistaar](#), [Microfinance](#), [Pradhan Mantri Jan Dhan Yojana](#), [Atal Pension Yojana](#), [Suraksha Bima Yojana](#), [Digital Personal Data Protection \(DPDP\) Act, 2023](#).

**For Mains:** Insurance Sector, Challenges with the Insurance Sector in India and way forward.

[Source: BS](#)

### Why in News?

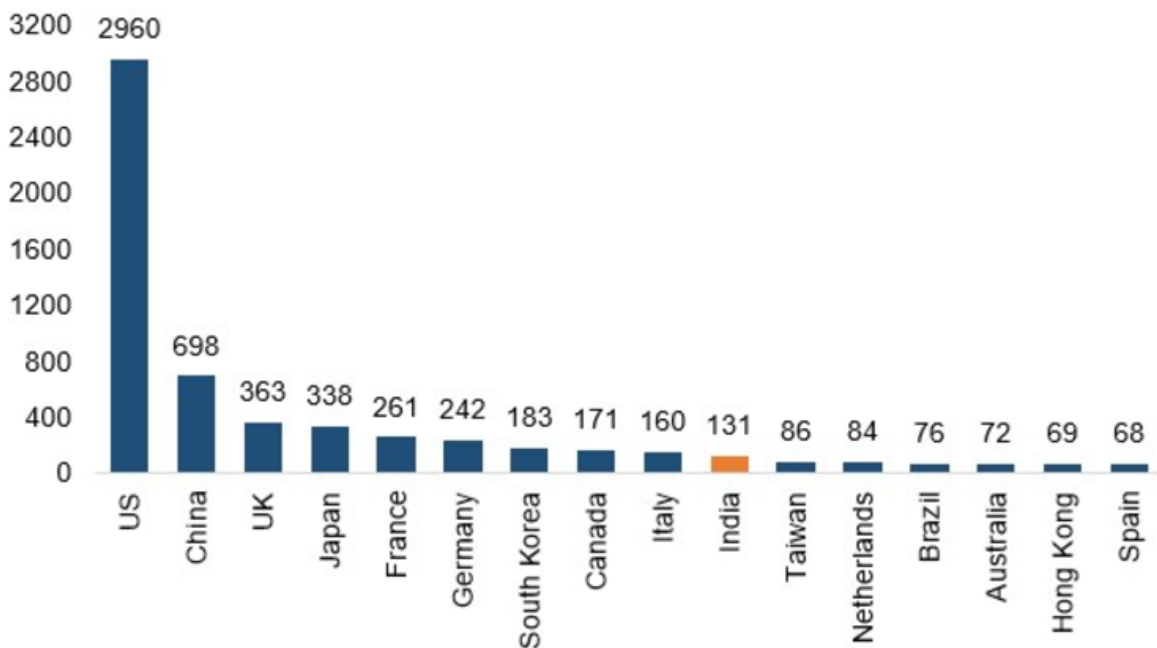
Recently, the heads of several **general insurance companies** in India **convened** to discuss the **challenges** facing the insurance sector in the country and shared their **insights on the future trajectory** of the industry.

### What is the Current State of Insurance Sector in India?

- **Global Market Position:** India ranks as the **10th largest insurance market** worldwide and holds the **2nd largest position** among emerging markets, with an estimated **market share of 1.9%**.

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## Total Premium Volume 2022 (US\$ billion)



- **Potential:** As per the [Insurance Regulatory and Development Authority of India \(IRDAI\)](#), India will be the **6th largest** insurance market within a decade, leapfrogging **Germany, Canada, Italy and South Korea**.
  - The insurance market in India is expected to reach **USD 222 billion by 2026**.
- **Insurance density:** It has increased from **USD 11.1 in 2001** to **USD 92 in 2022**.
  - The breakdown includes a life insurance density of **USD 70** and a non-life insurance density of **USD 22**.
    - Insurance density measures the **average insurance premium per person**.
- **Insurance penetration:** It has steadily risen from **2.7% in 2000** to **4% in 2022**.
  - Insurance penetration is defined as **premiums as a percentage of GDP**.
- **Foreign Direct Investment (FDI):** Between 2014-23, the insurance sector has received nearly **Rs. 54,000 crore (USD 6.5 billion)** in **FDI**.
  - Currently, **74% FDI** is allowed in the insurance sector.
- **Market Composition:** [Life Insurance Corporation of India \(LIC\)](#) remains the sole **public sector life insurer**, holding **62.58% market share** in new business premiums for FY23.
  - The **private sector's market share** in general and health insurance rose from **48.03%** in FY20 to **62.5%** in FY23.

### What are the Challenges in India's Insurance Sector?

- **Low Insurance Penetration:** Insurance penetration in India **remains low** compared to global standards.
  - India's insurance penetration was **4% in 2022** compared to **6.5% globally**.
- **Affordability Concerns:** The perception of **high costs**, especially with **GST rates at 18%**, continues to **deter potential buyers**.
- **Distribution Inefficiencies:** Reaching **underserved regions and demographics**, particularly rural and semi-urban areas, remains challenging.
  - Rural areas are home to **65% of India's population, over 90 crore people**, yet **only 8%-10%** have life insurance coverage.
- **Lack of Customisation:** The **lack of customisation** options that align with their specific requirements makes health insurance **less attractive to potential policyholders**.
- **Fraud and Risk Evaluation Challenges:** **Fraudulent claims and inefficient risk evaluation** increase costs, causing leakages that diminish overall savings in the insurance ecosystem.

- **Digital Transformation Hurdles:** Digitizing insurance processes increases [cybersecurity risks](#), making the sector a **target for malicious actors** seeking sensitive customer data.
- **Limited Financial Literacy:** The general public's **low [financial literacy](#)** hampers the ability to make informed decisions regarding insurance products.
  - In India, **1 in 5 [health insurance](#)** policy owners are **unaware of basic policy terms** despite purchasing the policy on their own.

## What is IRDAI?

- IRDAI, founded in **1999**, is a **regulatory body** created with the aim of protecting the interests of insurance customers.
  - It is a **[statutory body](#)** under the **IRDAI Act, 1999** and is under the jurisdiction of the **Ministry of Finance**.
- It regulates and sees to the development of the insurance industry while **monitoring insurance-related activities**.
- The powers and functions of the Authority are laid down in the **IRDAI Act, 1999 and Insurance Act, 1938**.

## Insurance for All by 2047

- **About:** IRDAI aims to achieve **'[Insurance for All](#)' by 2047**, ensuring that every citizen has comprehensive **life, health, and property insurance coverage**, and enterprises are supported with appropriate insurance solutions.
- **3 Pillars:** Insurance **customers (Policyholders)**, Insurance **providers (insurers)** and Insurance **distributors (intermediaries)**
- **Focus Areas:**
  - Making available **right products** to right customers
  - Creating robust **grievance redressal** mechanism
  - Facilitating **ease of doing business** in the insurance sector
  - Ensuring the **regulatory architecture** is aligned with the **market dynamics**
  - Boosting **innovation**
  - **Competition and distribution efficiencies** while mainstreaming technology and moving towards principle based regulatory regime.

## What are Government Initiatives to Increase Insurance Coverage?

- [Pradhan Mantri Jeevan Jyoti Yojana \(PMJJBY\)](#)
- [Pradhan Mantri Suraksha Bima Yojana \(PMSBY\)](#)
- [Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana \(AB-PMJAY\)](#)
- [Pradhan Mantri Fasal Bima Yojana \(PMFBY\)](#)

## Way Forward

- **Product Simplification:** Develop **simple, easy-to-understand products** to attract a broader audience, ensuring **affordability and financial inclusivity**, particularly for rural and under-penetrated segments.
- **Enhancing Accessibility:** Expand programs like [Bima Sugam](#), [Bima Vahak](#), and [Bima Vistaar](#) to improve distribution channels, especially in remote areas.
  - They are part of [Bima Trinity](#), a project of IRDAI to make insurance products more accessible to the public.
- **Bancassurance Expansion:** Allow corporate agents to **expand insurer partnerships**, by collaborating with banks and **microfinance institutions**.
- **Leveraging Government Schemes:** Build upon existing programs like [Pradhan Mantri Jan Dhan Yojana](#), [Atal Pension Yojana](#), and [Suraksha Bima Yojana](#) to bring vulnerable populations under the insurance umbrella.

- **Technology Adoption:** Utilize **AI-powered tools** for **hyper-personalized offerings, claims processing, and fraud detection**, ensuring faster and more efficient service delivery.
  - Adopt advanced encryption to comply with the [Digital Personal Data Protection \(DPDP\) Act, 2023](#), enhancing **customer trust**.

**Drishti Mains Question:**

Analyze the main challenges faced by the insurance sector in India. What strategies can be adopted to overcome these challenges?

## UPSC Civil Services Examination Previous Year Questions (PYQ)

### **Prelims**

**Q. In India, under cyber insurance for individuals, which of the following benefits are generally covered, in addition to payment for the loss of funds and other benefits? (2020)**

1. Cost of restoration of the computer system in case of malware disrupting access to one's computer
2. Cost of a new computer if some miscreant wilfully damages it, if proved so
3. Cost of hiring a specialized consultant to minimize the loss in case of cyber extortion
4. Cost of defence in the Court of Law if any third party files a suit

**Select the correct answer using the code given below:**

- (a) 1, 2 and 4 only
- (b) 1, 3 and 4 only
- (c) 2 and 3 only
- (d) 1, 2, 3 and 4

**Ans: (b)**

**Q. Consider the following statements: (2020)**

1. Aadhaar metadata cannot be stored for more than three months.
2. State cannot enter into any contract with private corporations for sharing of Aadhaar data.
3. Aadhaar is mandatory for obtaining insurance products.
4. Aadhaar is mandatory for getting benefits funded out of the Consolidated Fund of India.

**Which of the statements given above is/are correct?**

- (a) 1 and 4 only
- (b) 2 and 4 only
- (c) 3 only
- (d) 1, 2 and 3 only

**Ans: (b)**

### **Mains**

**Q. Public health system has limitations in providing universal health coverage. Do you think that private**

sector could help in bridging the gap? What other viable alternatives would you suggest? (2015)

**Q.** The product diversification of financial institutions and insurance companies, resulting in overlapping of products and services strengthens the case for the merger of the two regulatory agencies, namely SEBI and IRDA. Justify. (2013)

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