

## INDIAN INSURANCE SECTOR: ECONOMY

**NEWS:** Biggest problem for insurance industry is fraud: GIC Re chief

### WHAT'S IN THE NEWS?

India's insurance sector is witnessing steady growth but continues to face major challenges like low penetration, fraud, and claim settlement inefficiencies. Government initiatives like Bima Sugam and digitization aim to address these gaps and enhance outreach.

### Current Status of Indian Insurance Sector (FY24)

- **Market Growth:** The insurance industry in India saw a 7.7% growth in total premiums, reaching ₹11.2 lakh crore in FY24. This reflects the sector's resilience and growing importance despite global and domestic economic uncertainties.
- **Insurance Penetration:**
  - The overall penetration (percentage of GDP spent on insurance) slightly declined from 4.0% (FY23) to 3.7% (FY24).
  - Life insurance penetration fell from 3.0% to 2.8%, while non-life remained steady at 1.0%.
  - This is considerably below the global average of around 7%, indicating untapped potential in the Indian market.
- **Future Growth Outlook:**
  - According to Swiss Re Institute, India's insurance market is projected to grow at 11.1% annually between 2024–2028.
  - India is expected to be the fastest-growing insurance market among G20 countries, driven by urbanization, digital innovation, and regulatory reform.
- **Industry Structure:**
  - There are currently 25 life insurance companies and 34 general insurance companies in India.
  - LIC is the only public sector life insurer.
  - GIC Re (General Insurance Corporation of India) is the only national-level re-insurer in India.

### Insurance Regulatory and Development Authority of India (IRDAI)

- **Formation & Legal Framework:**
  - Established in 1999 post-Malhotra Committee recommendations and became a statutory body in 2000.

- Empowered under Section 114A of the Insurance Act, 1938 to frame regulations.
- **Objective:**
  - Protect policyholders' interests.
  - Regulate, promote, and ensure orderly growth of the insurance sector.
  - Under the Ministry of Finance's jurisdiction.

### Major Challenges Facing the Insurance Sector

- **Low Penetration:** The industry lags behind global standards, particularly in rural and low-income demographics.
- **Claims Settlement Issues:** Delays, rejections, and opaque processes erode customer confidence.
- **Limited Distribution:** Overdependence on urban markets and insurance agents limits rural reach.
- **Affordability:** High premiums and underpricing of certain products deter economically weaker sections.
- **Fraud and Mis-selling:**
  - Fraud is one of the biggest issues, as flagged by GIC Re.
  - Insurance fraud and mis-selling of products impact both customer trust and financial health of companies.
- **Rising Costs:** Escalating medical and claims expenses affect product pricing and insurer margins.

### Key Government and Regulatory Initiatives

- **FDI Reforms:**
  - FDI cap increased from 49% to 74% in 2021.
  - A proposal is under discussion to further raise it to 100% to attract more capital.
- **Empowerment of IRDAI:**
  - Strengthened with powers to promote industry growth, simplify product approval, and improve grievance redressal.
- **Digital and Rural Outreach:**
  - *Bima Sugam:* An all-in-one digital platform to connect insurers, intermediaries, and policyholders.

- *Bima Vahak*: Trained agents targeting last-mile delivery in rural and underserved areas.
- *Mandatory E-Insurance*: Compulsory digitisation of all policies to increase access and reduce fraud.
- **Health Insurance Reform:**
  - Reduced waiting period for pre-existing conditions from 48 months to 36 months, making coverage more accessible.

### Way Forward for the Sector

- **Tap Rural & Tier-2/3 Cities:** Focus expansion efforts in underserved areas with innovative and affordable products.
- **Boost Financial Literacy:** Conduct large-scale awareness campaigns to educate citizens about insurance benefits.
- **Simplify Regulations:** Make product approvals faster while maintaining consumer safety.
- **Improve Claim Systems:** Adopt tech-based, transparent systems for faster claims settlement.
- **Enhance Health Coverage:** Increase inclusion of critical illnesses and long-term care in health policies.
- **Use Technology Smartly:** Promote mobile platforms, AI-based risk profiling, and claim analytics for inclusive and efficient service delivery.

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