

Performance of Insurance Industry in India: A Critical Analysis

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Abstract

There is ample empirical evidence to vindicate the relationship between the performance of insurance industry and economic development. In spite of it, there is a dearth of empirical research in developing countries and analytical studies are limited in number, particularly in developing countries like India, where the insurance penetration and density are very low compared with international levels. In India, the growth rate of number of new policies issued and the insurance premium are experiencing a negative trend for the last three years. Reasons and contributing factors for this state of affairs is highly essential. The present paper primarily deals with these aspects of insurance industry and a comparative analysis of both private and public sectors of life and non-life insurance industry. Four indicators-Premium incomes, Market Share, New Policies Issued and Claims Settlement Ratio-- have been used to analyze the performance of Insurance industry. Besides, an overview of share of Indian insurance industry in the global insurance industry and inter-state variations in insurance penetration and density in India have been presented to assess the current status of insurance industry in India. As observed by the World Insurance Report -2014, the insurance industry has to inquire into these basic indicators of performance measurement and initiate the measures for improving its performance in the coming years.

Keywords: Insurance, penetration, density, insurance inclusion.

1. INTRODUCTION

Today, our economic activities are being propelled by the process of “Globalization”, which has integrated regional economies, societies and cultures, driven by a global network of communication, transportation and trade. In general, as economies become more connected to other economies, not only the opportunities have increased but the competition also has increased to significant extent. This process in turn, has also thrown up new challenges like growing inequality across and within regions and volatility in financial market. Though liberalization has facilitated cross border capital flows in the form of flow of investments, which can be used for economic reconstruction, also created the risk of selection of investment avenues. Similarly the lives of the people have also changed at an unprecedented pace and the globalization process has brought transformational shifts in their economic and social systems and undoubtedly offered unparalleled opportunities. All these shifts and opportunities have again are associated with the risks related to the probability of uncertain future events. Risk, defined as the potential of losing something of value, has many dimensions, among which financial risks are one, defined as the possibility that an actual return on an

investment would be lower than the expected return. These financial risks gave birth to the process of selecting the most remunerative avenue for investments and undoubtedly people today are preferring “insurance” against covered risks and for safeguarding their money. The clear task of “insurance” is to manage pure risks in the economy and households as well, which demands the necessity of mastering the risk, the need for a risk transfer or an insurance economy. Insurance is one of the demanding financial products which protect the families of any uncertainty in life.

It is true that investments are necessary for economic development and savings are the primary source of investments. Insurance products are the major instruments for the mobilization of savings of the families, particularly from middle and lower group households. Several research studies have identified and analyzed the relationship between the role of insurance sector for stimulating the economic development by mitigating sudden and devastating occurrences (Muthuswamy and Meera,2008; Arena,2006; Haiss and Sumegi,2008; Wadlanati KC ,2008; Han et.al.2010; Mojekwu et.al.2011; Michael Ojo,2012; Horng et.al., 2012; Lee et.al.2013;Olalekan Yinusa and Taiwo Akino,2013; Taiwo

et. Al.2014). The observations of the research have thrown light on the symbiotic relationship between the specific contributions of insurance industry and the processes of economic growth both in developed and developing countries as well as to the well-being of the poor in particular.

2. INSURANCE INDUSTRY IN INDIA:

It is the feeling of the common man in India that insurance is a mechanism for managing the risks. There is a good empirical and theoretical evidence that insurance sector influences economic development of India (Monalisa Ghosal, 2012; Anju Verma and Renu Bala, 2013; Aggarwal Preeti, 2007; Anit Kumar Chakrabarthy, 2006). The insurance industry in India consists of 52 insurance companies of which 24 are in life insurance business and 28 are non-life insurers. Among the life insurers, Life Insurance Corporation is the public sector company. Apart from that among the non-life insurers, there are 6

public sector insurers. India was ranked 10th among 147 countries in the life insurance with share of 2.03 per cent according to the estimates for the financial year 2013 and was ranked 19th among 147 countries in the non-life premium income, with a share of 0.66 per cent for the same financial year. The life insurance premium market grew at a compound annual growth rate of 16.5 per cent from US \$ 11.5 billion in the financial year 2003 to US \$ 52.9 billion in 2013 (IRDA Annual Reports). Where as the non-life insurance premium market rose at a CAGR of 14.9 per cent from US \$ 2.9 billion to US \$ 11.6 billion during the same period. The Global Trends in Life Insurance: Claims has also noted this significant growth of the insurance industry (www.capgemini.com/insurance).

However, the Annual Report-2012-13 of the IRDA (www.irda.gov.in) observed that the prospects for the growth of life insurance business in India remained sluggish in 2013 as shown in the following Table.1.

| Regions/Countries | Total Real Premium Growth Rate (%) | | | Insurance Premium (in US \$ billion) | | |
|--------------------|------------------------------------|----------|-------|--------------------------------------|----------|---------|
| | Life | Non-Life | Total | Life | Non-Life | Total |
| | Advanced Countries | -0.2 | 1.1 | 0.3 | 2200.25 | 1653.02 |
| Emerging Countries | 6.4 | 8.3 | 7.4 | 407.84 | 379.83 | 787.67 |
| | | | | 898.41 | 380.37 | 1278.78 |
| Asia | -6.5 | 2.2 | 4.1 | -34.4 | -18.7 | -27.6 |
| | | | | 52.17 | 13.4 | 65.58 |
| India | -1.1 | 2.5 | -0.4 | -2 | -0.66 | -1.41 |
| | | | | 2608.09 | 2032.85 | 4640.94 |
| World | 0.7 | 2.3 | 1.4 | -100 | -100 | -100 |

Table 1: Share of India in the World Insurance Industry in 2013.

Note: Figures in the brackets denote percentage share in the world.

The data in Table. 1 shows that the global insurance industry witnessed a positive growth of 1.4 per cent (in real terms) of premium volumes during 2013. Experts felt that the growth was driven by the increased demand for insurance due to initial economic recovery across globe after experiencing a decline during 2008 and 2009. This growth rate was found high at 7.4 per cent in emerging countries compared to a negligible growth rate of 0.3 per cent in advanced countries. The growth rate was high in Asian region witnessing 4.1 per cent and it can be said that

Source: IRDA (2015) Annual Report – 2013-14, p. 4 and 5

Asian region played a significant role in increasing the insurance premium, which accounted for 27.6 per cent during 2013.

However, the data also shows that insurance industry in India witnessed a negative growth rate of 0.4 per cent in 2013 though non-life insurance grew by 2.5 per cent. With regard to the insurance premium, which accounted for US \$ 4640.94 billion, the contribution of Asian region was significant with a share of 34.4 per cent.

The share of India in 2013 was estimated as 1.41 per cent of the insurance premium globally and its share in Asian region was only 5.13 per cent.

3. INTERNATIONAL COMPARISONS:

The negligible growth rate and contribution of life insurance industry in India can be attributed to the low insurance penetration and density compared to other countries around the globe as shown in Table. 2.

The data presented in Table. 2 clearly explain that India has the lowest insurance penetration and density when compared to the selected countries in the world. They are even low compared to the world average. It can be observed that in United States the non-life insurance penetration and density are high and in Switzerland, the

non-life insurance density accounts for around 83.0 per cent of the total density. The life insurance density is high in Taiwan, Hong Kong, United States, Japan and France. Switzerland has the highest insurance density of US \$ 7701.0, succeeded by Hong Kong and United Kingdom. Though insurance penetration is high in Taiwan (17.6 per cent), its insurance density is low at US \$ 3886.0 and on the contrary though the insurance penetration is low in Switzerland (9.6 per cent), its insurance density is found highest at US \$ 7701.0 for the year 2013.

In the case of India, the insurance penetration is lowest at 3.9 per cent even compared to the world average penetration (6.3 per cent). The insurance density in India (US \$ 52.0) accounts for only 0.7 per cent of the insurance density of Switzerland, 1.04 per cent of the Hong Kong and 1.4 per cent of the France.

| Countries | Insurance Penetration in 2013 (%) | | | Insurance Density in 2013 (in US \$) | | |
|-------------------|-----------------------------------|----------|-------|--------------------------------------|----------|--------|
| | Life | Non-Life | Total | Life | Non-Life | Total |
| 1. India | 3.1 | 0.8 | 3.9 | 41.0 | 11.0 | 52.0 |
| 2. Switzerland | 5.3 | 4.4 | 9.6 | 4211.0 | 3490.0 | 7701.0 |
| 3. Taiwan | 14.5 | 3.1 | 17.6 | 3204.0 | 682.0 | 3886.0 |
| 4. Hong Kong | 11.7 | 1.6 | 13.2 | 4445.0 | 557.0 | 5002.0 |
| 5. United Kingdom | 8.8 | 2.8 | 11.5 | 3474.0 | 1087.0 | 4561.0 |
| 6. Japan | 8.8 | 2.3 | 11.1 | 3346.0 | 861.0 | 4207.0 |
| 7. United States | 3.2 | 4.3 | 7.5 | 1684.0 | 2296.0 | 3979.0 |
| 8. France | 5.7 | 3.2 | 9.0 | 2391.0 | 1345.0 | 3736.0 |
| World | 3.5 | 2.8 | 6.3 | 372.6 | 283.1 | 655.7 |

Table 2: Insurance Penetration and Density in India Compared To Selected Countries and the World.

Source: IRDA (2015) Annual Report – 2013-14, p.107 and 108.

4. THE SOUTH –NORTH INEQUALITY IN INDIA:

The low insurance penetration and density in India can also be attributed to the continuous decline in these two

indicators across states in India in the individual business during the recent years as show in Table. 3.

| Selected States | Insurance Penetration (%) | | | Insurance Density (in Rs.) | | |
|----------------------------|---------------------------|-------------|-------------|----------------------------|---------------|---------------|
| | 2006-07 | 2010-11 | 2012-13 | 2006-07 | 2010-11 | 2012-13 |
| Andhra Pradesh | 1.71 | 1.04 | 0.63 | 641.5 | 709.2 | 559.6 |
| Karnataka | 1.63 | 1.17 | 0.73 | 651.8 | 800.2 | 624.0 |
| Kerala | 2.54 | 1.72 | NA | 1199.9 | 1397.4 | 769.0 |
| Tamilnadu | 1.81 | 1.12 | 0.58 | 836.7 | 923.7 | 596.8 |
| Average of 4 states | 1.92 | 1.26 | 0.65 | 832.5 | 957.6 | 637.4 |
| Chandigarh | 6.95 | 3.54 | NA | 8755.2 | 6966.6 | 4862.8 |
| Goa | 1.18 | 1.29 | NA | 1387.9 | 2955.0 | 2096.9 |
| Delhi | 2.86 | 1.74 | 0.91 | 2541.9 | 2769.8 | 1983.9 |
| Maharashtra | 1.23 | 1.21 | 0.80 | 689.1 | 1135.4 | 975.0 |
| Average of 4 states | 3.06 | 1.95 | 0.86 | 3343.5 | 3456.7 | 2479.7 |
| All India | 1.56 | 1.14 | 0.66 | 552.6 | 698.8 | 514.0 |

Table 3: Declining Penetration and Density of Individual Business in India –State-wise.

Note: State-wise data on insurance penetration and density for the year 2013-14 is not available.

Source: Calculated from the data published in IRDA (2013) Annual Report – 2012-13, p.140

Three conclusions can be drawn from the data presented in Table. 3.

The first conclusion is that southern states have comparatively low percentage of insurance penetration and insurance density when compared to the selected four northern states.

Among the southern states Tamilnadu has the lowest insurance penetration which has declined from 1.81 per cent to 0.58 per cent. Though Kerala has the highest insurance density, it has declined from Rs.1199.9 to Rs.769.0 and Andhra Pradesh has the lowest insurance density.

The second conclusion is that both the indicators viz., insurance penetration and density have declined during the period 2006-07 to 2012-13 in southern as well as northern states and as a result in India also.

Among the southern states, the decline in insurance penetration was highest at 68.0 per cent in Tamilnadu, followed by Andhra Pradesh (63.2 per cent). For all the four southern states, it has declined by 66.1 per cent during 2006-07 to 2012-13. Among the Northern states,

except for Goa, the overall decline in insurance penetration accounted for 71.9 per cent, which is highest compared to four selected southern states. It was found highest in Delhi (68.8 per cent) followed by Chandigarh (49.1 per cent).

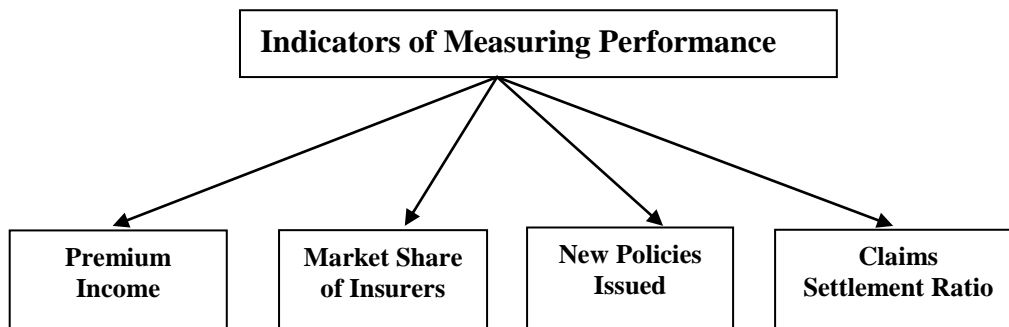
In the case of insurance density, the decrease was found highest in four selected Northern states (Rs.863.8 on an average accounting for 25.8 per cent) compared to the selected Southern states (Rs. 195.1 on an average accounting for 23.4 per cent).

Among the Southern states, the decline in insurance density was observed highest in Kerala (Rs. 430.9 on an average, accounting for 35.9 per cent) followed by Tamilnadu (Rs. 239.9 on an average accounting for 28.7 per cent). In the case of Northern states, though Goa and Maharashtra faired well by improving the insurance density, the insurance density for Chandigarh has declined by Rs.3892.4 (44.5 per cent) followed by Delhi with Rs. 558.0(22.0 per cent).

The third conclusion is that the performance of southern states is somewhat better both in insurance penetration and density compared to the average levels of the nation as a whole, in spite of a decline in both insurance penetration and density during 2006-07 to 2012-13.

5. PERFORMANCE OF INSURANCE INDUSTRY IN INDIA:

For assessing the performance of insurance industry in India the following four indicators are considered:



5.1 Premium Income:

There are 53 insurance companies operating in India as on March, 2014 of which 24 are in the insurance business and 28 are in non-life insurance business and GIC is the sole national reinsurer.

The total premium income recorded in the insurance industry (Life and Non-Life) has been increasing in the recent years as shown in Table. 4

| Insurer | Total Premium Income | | Gross Direct Premium Income | |
|----------------|----------------------|----------------------|-----------------------------|---------------------|
| | Life Insurance | | Non-Life Insurance | |
| | 2004-05 | 2013-14 | 2004-05 | 2013-14 |
| Public Sector | 75127.30 (18.25) | 236942.30 (13.48) | 13972.96 (4.77) | 38599.71 (10.21) |
| Private Sector | 7727.50 (147.65) | 77340.90 (-1.35) | 3507.63 (55.35) | 32010.30 (14.52) |
| Industry | 82854.80 (24.31) | 314283.20 (9.43) | 17480.59 (12.09) | 70610.02 (12.13) |

Table 4: Premium Income of Life and Non-Life Insurers in India.

Note: Figures in the brackets denote the growth rate (in percent) over the previous year.

Source: IRDA: Annual Reports – 2004-05 and 2013-14, p.14 and 20; p.9 and 17 respectively.

The data presented in Table. 4 indicate that in absolute terms, the premium income of the insurance industry has significantly increased in 2013-14 compared to the year 2004-05. The calculations reveal that the percentage increase in premium income was high at 303.9 per cent in non-life insurance industry compared to the increase of 279.3 per cent in life insurance industry in 2013-14 over the year 2004-05. At industry level, private sector witnessed a good improvement compared to the public sector both in life insurance and non-life insurance industry in 2013-14 compared to 2004-05 in absolute terms in spite of the slowdown in the growth rates.

The growth rates over the previous year show that the growth rate has decreased in the case of life insurance industry in 2013-14 (9.43 per cent) compared to the year 2004-05 (24.31 per cent). However, the growth rate has improved in the case of non-life insurance industry from 12.09 per cent to 12.13 per cent.

5.2 Market Share:

The data presented in Table. 4 clearly explain the market share on the basis of premium income of life and non-life insurance industries in India. The share of public sector has declined and the private sector has improved significantly in 2013-14 compared to 2004-05 as shown in Table. 5

| Insurer | Market Shares (in Per cent) | | | |
|----------------|------------------------------|---------|--------------------|---------|
| | Life Insurance | | Non-Life Insurance | |
| | 2004-05 | 2013-14 | 2004-05 | 2013-14 |
| Public Sector | 90.1 | 75.4 | 79.9 | 54.7 |
| Private Sector | 9.9 | 24.6 | 20.1 | 45.3 |
| Industry | 100.0 | 100.0 | 100.0 | 100.0 |

Table 5: Market shares of Life and Non-Life Insurance in India.

Source: Table. 4.

It is evident from the table. 5 that the market share of private insurers have increased both in life and non-life insurers in 2013-14, compared to 2004-05. Particularly the private insurers in non-life insurance have performed well as their share has increased from 20.1 per cent to 45.3 per cent and also in life insurance from 9.9 per cent to 24.6 per cent. On the contrary, the market shares of the public insurers have decreased from 90.1 per cent to 75.4 per cent and from 79.9 per cent to 54.7 per cent in life insurance

and non-life insurance industries respectively during this period.

5.3 New Policies Issued:

The no. of policies issued represents the spreading capacity of the insurance industry by attracting the people towards the insurance products. A comparative picture of new policies issued by both life insurance and non-life

insurance companies is presented in Table. 6 so as assess the widening capacity of the insurance industry in India.

| Insurers | Life Insurance | | Non-Life Insurance | |
|----------------|-------------------|-------------------|--------------------|---------------------|
| | 2004-05 | 2013-14 | 2004-05 | 2013-14 |
| Public Sector | 239.78 (91.5) | 345.12 (84.4) | 421.42 (89.3) | 600.06 (58.6) |
| Private Sector | 22.33 (8.5) | 63.60 (15.6) | 51.07 (10.7) | 424.47 (41.4) |
| Industry | 262.11 (100.0) | 408.72 (100.0) | 472.07 (100.0) | 1024.53 (100.50) |

Table 6: Number of New Policies Issued (in Lakhs).

Note: Figures in the brackets denote the shares in percent.

Source: IRDA: Annual Reports- 2004-05 and 2013-14, p.16 and 24; p.11 and 20 respectively.

The data presented in Table. 6 reveal that the market share of the insurers in public sector, both in life and non-life insurance has declined during 2004-05 and 2013-14. During this period the market share of the public insurers has decreased from 91.5 per cent to 84.4 per cent, in spite of an absolute increase in the no. of new policies issued accounting for a net increase of 43.9 per cent in 2013-14 over 2004-05 with reference to life insurance policies and a net increase of 42.4 per cent in non-life insurance policies, in spite of a net increase of 178.64 lakh policies issued. On the contrary, the market share of the private insurers has increased from 8.5 per cent in 2004-05 to 15.6 per cent of the life insurance policies and from 10.7 per cent to 41.4 per cent of non-life insurance policies. The performance of life insurance sector with regard to issue of new policies is some what dissatisfactory when compared to the performance of non-life insurance sector. Totally 146.61 lakh new policies were issued by the insurers in life insurance and the same was 552.46 lakh policies by non-life insurers during 2004-05 and 2013-14 indicating a net increase of 55.9 per cent and 117.0 per cent respectively.

To sum up, the private insurers have overtook the no. of policies issued compared to the public sector insurers.

5. 4 Claims Settlement Ratio:

The performance of life insurance industry primarily depends upon two important functions: one is underwriting and the other is settlement of claims. Life insurance contract is an agreement wherein the insurer agrees to pay a certain sum to the insured upon the happening of events specified in the policy and upon the nature and conditions of the policy. A claim is thus a demand on the insurer to fulfill it as a part of the promise and its settlement either at the time of the maturity or to the beneficiary/nominee in the case of death of the policy holder. Particularly when the insurer looks at the attempts to reduce cost and to improve customer retention, the company has to take care of the settlement of claims, as determining factor of ensuring customer satisfaction. Claims Settlement Ratio refers to the number of claims that the insurer has paid following the death of the policy holder. Thus, if an insurer has a claim settlement ratio of 90.0 per cent, it means that the insurer has paid (settled) 90 out of every 100 claims filed when the policyholder dies for the life insurance industry. The incurred ratio of the non-life insurance industry refers to the net incurred claims to net earned premium in a year. Hence, claims performance is the litmus test of a life insurer's credibility.

| Insurer | Total Claims Paid | | | |
|--------------------|-------------------------|-----------------------------------|--------------------|----------------------------------|
| | Individual Death Claims | | Group Death Claims | |
| | No. of Policies | Benefit Amount (in Rs. Crore) | No. of Policies | Benefit Amount (in Rs. Crore) |
| Private | 110410 (88.3) | 2385.33 (78.1) | 143530 (90.8) | 1222.25 (91.3) |
| LIC | 746212 (98.1) | 8475.26 (95.2) | 266367 (99.7) | 1882.83 (99.6) |
| Insurance Industry | 856622 (96.8) | 10860.59 (90.8) | 409897 (96.2) | 3105.08 (96.1) |

Table 7: Claims Settlement Ratio of Life Insurance Industry -2013-14.

Note: Figures in the brackets denote claims settlement Ratio in percentages.

Source: IRDA (2015) Annual Report – 2013-14, pp.113-116.

The performance of Life Insurance industry is presented in Table.7 to assess the relative performance of private life insurers and LIC.

The data presented in Table.7 indicate that totally 85.7 lakh individual death claims were settled with a benefit amount of Rs.10861 crore and 4.1 lakh group death claims were settled with a benefit amount of Rs. 3105.08 crore during the year 2013-14. The data also shows that the performance of private insurance companies was comparatively lower at 88.3 per cent and 90.8 percent with respect to individual and group death claims respectively. It means that the private insurance companies could not settle 11.7

per cent of the claims received on individual policies and 9.2 per cent of the group death claims could not be settled for various reasons. Even the benefit amount was paid to the extent of 78.1 per cent in the case of individual policies and 8.7 per cent of the benefit amount in the case of group death claims was not paid to the beneficiaries/nominees.

5.5 Claim Settlement Ratio of Non-Life Insurers:

The incurred claims ratio of non-life insurers – both public sector and private sector companies is presented in Table. 8 for the years 2004-05 and 2013-14 to assess the improvement if any during last nine years.

| Details | 2004-05 | | | 2013-14 | | |
|---------------------------|---------------|----------------|----------|---------------|----------------|----------|
| | Public Sector | Private Sector | Industry | Public Sector | Private Sector | Industry |
| Net Earned Premium | 1111795 | 178201 | 1289996 | 3343681 | 2245920 | 5589601 |
| Net Claims Incurred | 907540 | 91173 | 998713 | 2781798 | 1787411 | 4569209 |
| Incurred Claims Ratio (%) | 81.63 | 50.97 | 77.4 | 83.20 | 79.6 | 81.7 |

Table 8: Incurred Claims Ratio of Non-Life Insurance Industry.

Source: IRDA (2005) Annual Report-2004-05 and 2013-14, pp.117, 118 and125, 126

The data presented in Table.8 amply proves the fact that the incurred claims ratio for public sector companies has improved only marginally from 81.6 per cent in 2004-05 to 83.2 percent in 2013-14 in spite of significant increase in absolute net claims incurred.

On the contrary, the performance of private sector has increased significantly from 50.97 per cent to 79.6 per cent during 2004-05and 2013-14

6. SUMMARY AND CONCLUSIONS:

It is quite clear from the above discussion that the insurance penetration and density is very low compared to the global positions and that exist in the developed countries. There exists regional disparities between south and north Indian states with regard to insurance penetration and density and they have been drastically declining in recent years. All the southern states, except Kerala, have low insurance density compared to Chandigarh. Efforts are to be initiated towards this direction and improve the insurance penetration and density.

The claims settlement ratio, one of key indicator for measuring the operational efficiency of insurance industry shows that LIC has fared well in terms of high settlement ratio of individual and group death claims, compared to the private insurers. In the case of non-life insurers, the performance of public sector was seen as almost stagnant

registering a marginal increase in the year 2013-14 compared to 2004-05.

All these aspects are to be taken care for the healthy growth of the insurance industry in India. If the insurance industry wants to remain cost competitive, both life insurers and non-life insurers have to improve their distribution techniques and develop products to change customer behavior. The Government should also think about providing more tax concessions for policy holders, which accelerates the intentions of the people to resort to insurance products as the best investment avenue. At present our country has an investment-friendly government, which is constantly working towards framing policies that can attract investment and customer-centric products that give business the best possible environment to grow. As noted by the Insurance Report on *“Business Pulse-2013 and Beyond”* achieving cost-competitiveness, improving the stakeholders’ confidence, meeting new demand one individual at a time and improving the operational ability of the insurance industry are to be paid attention to experience the healthy growth of insurance industry as has been happening in most of the developed countries around the globe.

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