



GROWTH AND CHALLENGES OF INSURANCE SECTOR IN INDIA

Dr. Harisha N

Assistant Professor, Department of Economics, Karnataka State Open University, Mukthagangothri, Mysore

ABSTRACT

The insurance sector in India has witnessed significant growth over the past few decades, evolving from a state-dominated industry to a competitive and dynamic market in open economy after liberalization. This paper is made an attempt to explore the major objectives like, to analysis the early history of insurance sector in India, growth, challenges and opportunities in present economic situation. This paper is based on the information collected through available secondary sources and literature reviews. The secondary sources include the reports collected from the, journals, articles, books, documents of various ministries and departments and organizations, papers, and websites used in this study. The proposed study mainly in descriptive in nature. This paper highlights data on life and non-life insurance premiums, insurance penetration, insurance density, and the number of insurers in the market. Life insurance premiums figures show the total annual premiums collected by life insurance companies. The value has steadily increased from ₹4.58 lakh crore in 2018 to an estimated ₹8.50 lakh crore in 2024, indicating growing awareness and demand for life insurance products. Insurance Penetration also rose from 3.69% in 2018 to an estimated 4.5% in 2024, reflecting improved access and adoption of insurance across India, though still relatively low compared to global standards. Insurance density indicates the average annual per capita insurance expenditure. It increased from USD 74 in 2018 to a projected USD 110 in 2024, showing that individuals are spending more on insurance, likely due to increasing income levels, financial awareness, and risk coverage needs. In this paper it is also highlighted the major challenges and opportunities in the insurance sector in India during liberalized economy.

KEY WORDS: Penetration, Density, Liberalization, Regulatory

INTRODUCTION

The insurance sector in India has witnessed significant growth over the past few decades, evolving from a state-dominated industry to a competitive and dynamic market in open economy after liberalization. In India in the post liberalized economy which allowed private and foreign players to enter the sector. Since then, the sector has expanded rapidly with increasing awareness, rising incomes, supportive regulatory frameworks, and digital innovations. According to the Insurance Regulatory and Development Authority of India (IRDAI), the gross direct premium income of the general insurance industry rose from ₹38,896 crore in 2004–05 to over ₹2.2 lakh crore in 2022–23. Similarly, life insurance penetration has steadily improved, making India one of the top emerging insurance markets globally. Despite this growth, the industry faces several challenges. A significant portion of the population remains uninsured or underinsured, particularly in rural areas. The sector also grapples with issues like low insurance penetration (3.2% in 2022), complex regulatory compliance, lack of skilled manpower, and rising claim settlement delays. Moreover, digital transformation, while promising has also brought cyber security and data privacy concerns. Addressing these challenges through policy reforms, enhanced financial literacy, digital inclusion, and strong governance mechanisms is essential for ensuring the long-term sustainability and inclusiveness of India's insurance landscape.

OBJECTIVES AND METHODOLOGY

This paper is made an attempt to explore the major objectives like, to analysis the early history of insurance sector in India, growth, challenges and opportunities in present economic

situation. This paper is based on the information collected through available secondary sources and literature reviews. The secondary sources include the reports collected from the, various journals, articles, books, documents of different ministries and departments and organizations, papers, and websites used in this study. The proposed study mainly in descriptive in nature.

GROWTH OF INSURANCE SECTOR IN INDIA

The origins of insurance in India date back to ancient times when informal systems of mutual aid and risk-sharing were practiced within communities, particularly among traders and farmers. References to such systems are found in ancient texts like Kautilya's Arthashastra (300 BCE), which discussed state regulation of trade, risk management, and financial contracts. However, the foundation of modern insurance in India was laid during the British colonial period. The first formal life insurance company, the Oriental Life Insurance Company, was established in 1818 in Calcutta by British entrepreneurs. It primarily served the European community, offering limited or no coverage to Indian citizens. The first Indian-owned life insurance company was the Bombay Mutual Life Assurance Society, founded in 1870, which began offering policies to Indians under more equitable terms. General insurance (covering non-life areas like marine and fire insurance) began with the Triton Insurance Company, set up in 1850 in Calcutta, again by British interests. As the sector grew, several Indian companies entered the market, such as Bharat Insurance Company (1896) and Hindustan Co-operative Insurance Company (1907), promoting indigenous participation in the industry. However, many foreign companies continued to



dominate, often charging discriminatory premiums to Indian policyholders. To address these issues, the government passed the Indian Life Assurance Companies Act in 1912, the first legislation to regulate life insurance companies. This was followed by the Insurance Act of 1938, a comprehensive law that brought both life and general insurance under regulatory control, introduced licensing requirements, and aimed to curb malpractices. This Act laid the foundation for structured growth and supervision of the insurance industry in India before independence.

PROGRESS OF INSURANCE SECTOR AFTER INDEPENDENCE

After gaining independence in 1947, India’s insurance sector underwent significant transformation to ensure better regulation and protection of policy holders. In 1956, the government nationalized 245 private life insurance companies and established the Life Insurance Corporation of India (LIC), creating a state monopoly to extend insurance services across the country, especially to underserved rural areas. Later, in 1972, the general insurance sector was nationalized under the General Insurance Business (Nationalisation) Act, leading to the creation of four public sector companies New India

Assurance, National Insurance, Oriental Insurance, and United India Insurance under the supervision of the General Insurance Corporation (GIC). These reforms emphasized insurance as a social security tool rather than a profit-oriented business. However, to enhance efficiency and expand coverage, the government initiated liberalization in the 1990s. Based on recommendations of the Malhotra Committee (1993), the Insurance Regulatory and Development Authority of India (IRDAI) was established in 1999, opening the sector to private and foreign players. This led to the entry of companies such as ICICI Prudential, HDFC Life, and Bajaj Allianz, bringing competition, improved customer service, and innovation. Since then, the sector has grown steadily, supported by increased insurance penetration and density, advancement in digital technology, and supportive government schemes like Pradhan Mantri Jeevan Jyoti Bima Yojana, Ayushman Bharat, and the crop insurance programme PMFBY. Recent reforms such as the increase in Foreign Direct Investment (FDI) limits from 26% to 74% have further fueled growth. Today, the insurance industry in India is a mix of public and private players offering a wide range of life, health, and general insurance products, playing a crucial role in financial inclusion, social protection, and economic development.

Table 1: Growth of the Insurance Sector in India (2018 to 2024)

Year	Life Insurance Premiums (INR Crore)	Non-Life Insurance Premiums (INR Crore)	Insurance Penetration (% of GDP)	Insurance Density (USD per capita)	No. of Insurers
2018	4,58,809	1,69,448	3.69	74.0	57
2019	5,08,132	1,87,181	3.71	78.0	58
2020	5,73,857	2,03,922	4.20	78.0	66
2021	6,29,890	2,20,772	4.20	91.0	67
2022	6,93,130	2,38,152	4.20	91.0	70
2023*	7,80,000	2,60,000	4.30	100.0	70+
2024*	8,50,000	2,85,000	4.50	110.0	70+

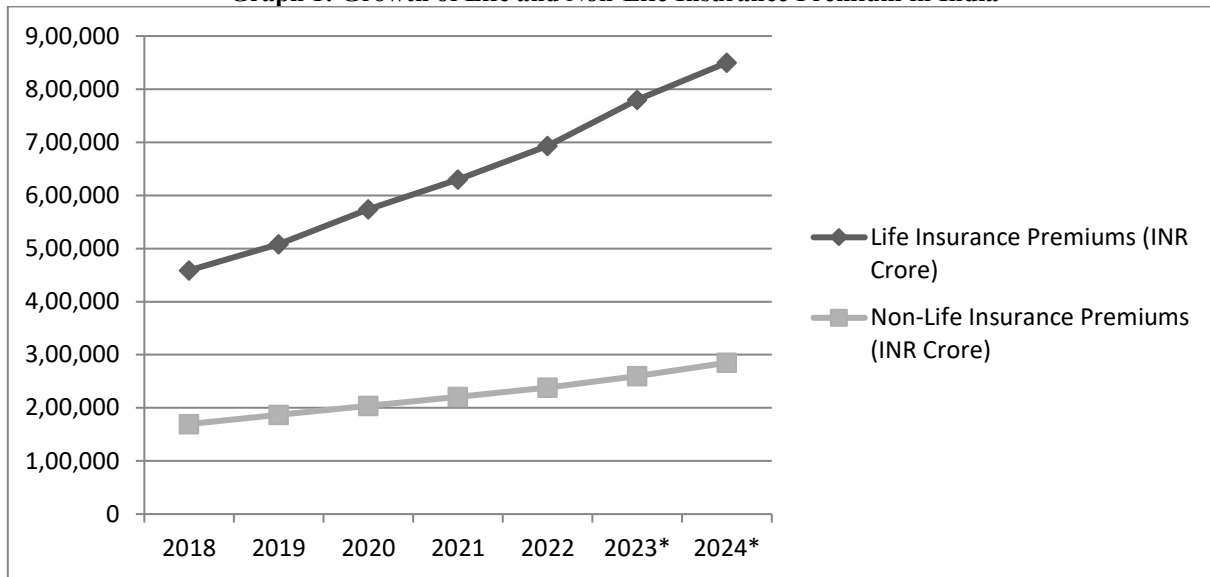
Sources: IRDAI, Annual Report (2023), Insurance Regulatory and Development Authority of India, Government of India, Ministry of Finance and Economic Survey 2022–23, Ministry of Finance, Government of India.

The above table presents key indicators reflecting the performance and expansion of the insurance sector in India from 2018 to 2024. It highlights data on life and non-life insurance premiums, insurance penetration, insurance density, and the number of insurers in the market. Life insurance premiums represent the total annual premiums collected by life insurance companies, which steadily increased from 4.58 lakh crore in 2018 to an estimated 8.50 lakh crore in 2024, indicating growing awareness and demand for life insurance products. Non-life insurance premiums, which include premiums collected for health, motor, property, and other general insurance categories, also grew significantly from 1.69 lakh crore in 2018 to a projected 2.85 lakh crore in 2024. Insurance penetration, which measures the share of insurance premiums as a percentage of the country’s GDP, raised from 3.69 percent

in 2018 to an estimated 4.5 percent in 2024, reflecting improved access and adoption of insurance across India, though still relatively low compared to global standards. Insurance density, indicating the average annual per capita insurance expenditure, increased from 74 US dollars in 2018 to a projected 110 US dollars in 2024, showing that individuals are spending more on insurance, likely due to rising income levels, financial awareness, and risk coverage needs. The number of active insurance providers, including both life and non-life, grew from 57 in 2018 to over 70 by 2023–2024, demonstrating the liberalization of the sector and increasing competition, which has led to more product offerings and customer-centric services.



Graph 1: Growth of Life and Non-Life Insurance Premium in India



Sources: Annual Report, IRDAI (2023)

The above line graph clearly shows the consistent growth of both segments in life and non-life insurance premiums in India from 2018 to 2024.

MAJOR CHALLENGES TO THE GROWTH OF INSURANCE SECTOR IN INDIA

Low Insurance Penetration and Density: India's insurance penetration (around 4% of GDP) is much lower than countries like the UK, USA, or South Korea. The majority of the population is either uninsured or underinsured. Many Indians do not perceive insurance as a necessity due to cultural beliefs, lack of risk awareness, or low financial literacy. In rural areas, insurance is often misunderstood, with people associating it only with tax savings or savings plans, rather than protection against life, health, or property risks.

Regulatory and Policy Constraints: While IRDAI has helped shape a strong regulatory environment, frequent policy changes and bureaucratic delays can slow down innovation and product rollouts. For example, new insurance products must undergo long approval cycles. Strict solvency requirements (the amount of capital insurers must maintain) can be a burden for small or new insurers, limiting their competitiveness and ability to expand.

Trust and Transparency: Many consumers hesitate to buy insurance due to past experiences with mis-selling or lack of transparency. In the past, agents sold policies promising guaranteed returns or benefits without clarifying conditions. Additionally, delays in claim settlements or outright rejections often due to technicalities further reduce public trust. This negative perception is hard to change and affects long-term customer relationships.

Evaluating and Pricing Challenges: Underwriting is the process of evaluating risks and deciding how much to charge for a policy. In India, due to incomplete or unreliable data, especially in rural health or agriculture, it becomes difficult to

assess risk accurately. Fraudulent claims are also a big problem in segments like health and motor insurance. As a result, insurers either suffer losses or have to charge higher premiums to cover these uncertainties, making policies unaffordable for many.

Growth of Technology and Digitalization: Although digitalization is transforming urban insurance markets with online portals and app-based services, rural India still struggles due to poor internet connectivity, low smartphone usage, and digital illiteracy. Also, many traditional insurers still operate on outdated IT infrastructure, slowing down claims processing, customer service, and innovation. The sector must invest in tech but also address the digital divide to ensure inclusion.

Competition and Pricing Pressure: The Indian insurance market has become very competitive, especially with private companies and start-ups entering the field. To gain customers, many insurers reduce premium prices or offer deep discounts, which can be financially unsustainable. This price-based competition often leads to thin margins and affects service quality. Long-term sustainability requires balancing growth with profitability.

Inadequate Distribution Channels: Most insurers still depend on physical channels like agents or bank branches. These intermediaries often have limited reach in remote areas and may not be trained adequately to explain complex insurance products. Furthermore, digital channels are still evolving and not widespread in semi-urban and rural regions. As a result, millions of potential customers remain unreached or underserved.

Slow and Unfair Claim Processing and Customer Service Issues: One of the most common complaints against insurance companies in India is slow and unfair claims processing. Customers often face lengthy paperwork, unclear processes, and poor communication. In many cases, policyholders are not informed about exclusions and conditions at the time of



purchase, leading to disputes at the time of claims. A smoother, more transparent claims process is essential to build customer loyalty and trust.

Impact of Climate Change and Natural Disasters: India is highly prone to natural disasters like floods, droughts, cyclones, and earthquakes, which affect both urban and rural populations. Crop insurance schemes, for instance, have seen massive payouts due to erratic weather patterns. However, insurers often lack robust data models to predict and price these risks. As climate change worsens, these unpredictable events will increase financial risk for insurance providers.

Skilled Human Resources: The insurance sector requires specialized professionals such as actuaries (who calculate risks), data scientists (who analyze trends), underwriters, and claim assessors. However, there is a shortage of such skilled talent in India. Many graduates prefer sectors like IT or banking, and there's a lack of professional training institutes focused on insurance. This talent gap limits innovation and efficiency in the sector.

Limited Reinsurance Capacity: Reinsurance is insurance for insurance companies, helping them cover large or unexpected losses. India has limited reinsurance providers (e.g., GIC Re), and most insurers rely on foreign reinsurers. This dependency increases exposure to global market fluctuations and may delay settlements during large catastrophes. Strengthening domestic reinsurance capacity is essential for financial resilience.

OPPORTUNITIES FOR INSURANCE SECTOR IN INDIA

Large Untapped Market: India's vast population presents a huge untapped market for insurance. A significant percentage of people, particularly in rural and semi-urban areas, still lack basic insurance coverage like life, health, or general insurance. Expanding into these regions can help insurers increase market penetration and revenue while providing financial security to underserved communities.

Rising Middle Class and Income Levels: With rapid urbanization and economic growth, India is witnessing the emergence of a large and aspirational middle class. This segment is increasingly interested in securing their future through life insurance, health coverage, retirement plans, and property insurance. Higher disposable income means more people can afford insurance products beyond mandatory ones like motor insurance.

Government Initiatives and Schemes: The Government of India has launched various insurance schemes aimed at the poor and vulnerable, like PMJJBY (Pradhan Mantri Jeevan Jyoti Bima Yojana) life insurance at ₹330 per year, PMSBY (Pradhan Mantri Suraksha Bima Yojana) accident insurance at ₹12 per year, Ayushman Bharat, one of the world's largest public health insurance schemes. These schemes increase awareness, create a culture of insurance, and offer a platform for private insurers to expand complementary offerings.

Digital Transformation and Growth: The rise of smartphones, internet access, and UPI payments has accelerated digital transformation. Start-ups, use of artificial intelligence (AI), machine learning and mobile apps to make insurance buying, claims, and customer support faster and more convenient. This reduces operational costs and helps reach remote customers who were previously difficult to serve.

Increasing Awareness and Financial Literacy: Government and private campaigns promoting financial literacy are gradually improving the population's understanding of insurance. As awareness grows, people begin to see insurance not just as a tax-saving or investment tool, but as a critical financial safety net, increasing demand for both life and non-life insurance products.

Rapid Growth in Health Insurance Demand: Post-COVID-19, there has been a major surge in health consciousness and awareness of rising medical costs. This has led to increased demand for health insurance, especially family floater plans, top-up covers, critical illness plans, and telemedicine-linked policies. There's also growing interest in wellness programs bundled with insurance.

Expansion of Distribution Channels: Beyond traditional agents and bank tie-ups, insurers are now using Digital marketplaces, E-commerce platforms, Telecom networks, Common Service Centres (CSCs) in village's these channels improve access, especially in rural areas, and reduce customer acquisition costs.

Young Population: India has one of the world's youngest populations. Young adults are open to purchasing insurance online, using mobile apps, and opting for innovative products like pay-as-you-drive motor insurance or usage-based health insurance. Their early entry into the insurance market ensures long-term growth and customer lifetime value.

Foreign Direct Investment (FDI) and Regulatory Reforms: The Indian government raised the FDI limit in the insurance sector from 49% to 74%, making the sector more attractive to global insurance giants. This brings capital, global best practices, and technology to Indian insurers, improving the overall efficiency and competitiveness of the market.

Growth in Group and Corporate Insurance: As Indian businesses expand, they are offering insurance as part of employee benefits group health, term life, and accidental insurance plans. This corporate demand creates a steady revenue stream for insurers and promotes insurance as a standard employment benefit.

Demand for Climate and Agri-Insurance: With rising climate-related risks like floods, droughts, and cyclones there's growing demand for crop insurance and climate-related coverage. Schemes like PMFBY (Pradhan Mantri Fasal Bima Yojana) have shown the potential for expansion, especially if paired with better technology for weather prediction and remote assessment.



SUGGESTIONS

To accelerate the growth of the insurance sector in India, a multi-pronged strategy is essential. Insurers should prioritize financial literacy and awareness campaigns, especially in rural and semi-urban areas, using local languages and relatable examples to address misconceptions about insurance. Building trust through transparent policy terms, clear disclosure of exclusions, and efficient, fair claims settlement will strengthen customer confidence. Bridging the digital divide is critical, with low-data mobile applications, offline enrolment facilities, and insurance kiosks in post offices and Common Service Centres helping to reach underserved populations. Regulatory flexibility, such as faster product approvals and a “regulatory sandbox” for innovation, can encourage timely market responses. Expanding distribution networks through partnerships with fintech firms, e-commerce platforms, and telecom providers will enhance accessibility, while training agents to explain products effectively will improve customer engagement. Leveraging advanced technology like AI for fraud detection, personalized pricing, and satellite data for climate and agricultural risk assessment will improve underwriting accuracy. Affordable, customizable products such as micro-insurance and modular coverage can make policies more accessible to low-income groups. A smoother claims experience, with instant settlement for small claims and 24×7 multilingual customer support will enhance satisfaction. Finally, investment in skill development through specialized insurance courses and strengthening domestic reinsurance capacity will ensure long-term stability and resilience in the sector.

CONCLUSION

The insurance sector in India has witnessed significant growth over the past few decades, driven by economic development, rising income levels, regulatory reforms, and increasing awareness of risk management. The expansion of digital technology and supportive government schemes has further enhanced insurance penetration across various segments of society. However, the sector continues to face major challenges, including low penetration in rural areas, lack of trust, regulatory hurdles, inadequate distribution networks, and rising climate-related risks. To fully realize its potential, the industry must focus on innovation, customer-centric products, transparent practices, and inclusive strategies that reach the underserved population. Collaboration between insurers, the government, and technology providers is essential to build a robust, accessible, and sustainable insurance ecosystem. With the right policies, digital adoption, and awareness efforts, the Indian insurance sector is poised to play a crucial role in ensuring financial security and social protection for millions of citizens.

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