



Mains Marathon

Day 46: "Health insurance is the major component of national economies around the world. Discuss the challenges associated with the insurance sector in India. (250 words)"

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Approach / Explanation / Answer

- Start your answer by elaborating the statement and highlight the underlying issues which affect the insurance sector in India.
- Discuss the challenges in India's Insurance sector with suitable examples and data.
- Suggest a way forward to overcome the challenges associated with the insurance sector in India.
- Conclude your answer by giving a way forward.

Answer:

Insurance is the main element in the operation of national economies throughout the world today. It protects the health and assets of the people and stimulates business activities to operate in a cost-effective manner.

While India's insurance sector has been growing dynamically in recent years, its share in the global insurance market remains abysmally low.

There are many underlying issues which affect the insurance sector in India such as low penetration and density rates, inadequate investment in insurance products, and the dominant position and deteriorating financial health of public-sector players.

Challenges in India's Insurance sector:

Prevalence of Insurance Gap: The insurance penetration (ratio of total premium to GDP (gross domestic product)) and density (ratio of total premium to population) stood at 3.69% and US\$ 73, respectively for FY18 (fiscal year 2017-18), which is low in comparison with global levels.

These low penetration and density rates reveal the uninsured nature of large sections of population in India, and the presence of an insurance gap.

Public Sector Dominated: The insurance sector has transitioned from being an exclusive State monopoly to a competitive market, but public-sector insurers hold a greater share of the insurance market even though they are fewer in number.

Nascent Non-life Insurance: Life insurance dominates the sector with a huge share of 74.7%, with non-life insurance accounting for the remaining 25.3%.

In the non-life insurance sector, motor, health, and crop insurance segments are driving growth. India's non-life insurance penetration is below 1%.

In addition, insurance products catering to speciality risks such as catastrophes and cyber security are at a nascent stage of development in the country.

Rural-Urban Divide: Low insurance penetration and density rates prevail in India. However, Rural participation of insurers remains deficient, and life insurers, especially private ones, gravitate towards the urban population.

Capital Starved Insurers: Insurers in India lack sufficient capital, and their financial health, particularly that of the public-sector insurers, is in a precarious state.

Further, investment in the insurance sector dwindled due to the crisis in banks and NBFCs (non-banking financial companies) sector.

Way Forward

Rural Centric Approach: Insurance companies in India will have to show long-term commitment to the rural sector as well, and will have to design products which are suitable for rural people.

In this context, government insurance schemes such as Pradhan Mantri Jan Arogya Yojana, Pradhan Mantri Fasal Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, and Pradhan Mantri Jeevan Jyoti Bima Yojana are notable steps in right direction.

Need For Awareness Program: There is a need for complementary thrust to spread awareness and improve financial literacy, particularly the concept of insurance, and its importance.

Technological Intervention: Another area that necessitates regulatory scrutiny is that of the application of technology in insurance. An example is the emergence of 'InsurTech', designed to make the claim process simpler and more comprehensible.

Enhanced Role of Regulator: The regulator needs to exercise vigilance on three other aspects.

It must ensure that insurance is not denied to lower-income people who make up the bulk of the population and have the most need for protection.

It should insist that insurers facilitate a simple online process for direct buying of insurance products, bypassing intermediaries.

It should ensure that players do not overcharge or add hidden costs.

Demographic factors, coupled with increasing awareness and financial literacy, are likely to catalyse the growth of the sector. An enhanced regulatory regime that focuses on increasing insurance coverage is the need of the hour.

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