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Emerging problems and prospects of insurance industry and road ahead

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Abstract
The insurance industry in India has come to a long way since the several businesses were regulated and maintained in the hands of a few public sector insurers. From the year 2003, the life insurance premium increased by an estimated 12% but in last decade the growth in insurance premium has been average at 11% approx. During pandemic insurers will face a number of challenges but also see many new opportunities. In this article several challenges have been discussed which were faced by the insurance sectors and also analyzed properly with the help of several statistical tools.

Keywords: pandemic, unemployment, GST, social risk, mutual fund

Introduction

Background

In India, insurance has a deep-rooted history. This conception finds in the Arthasastra and Dharmasastra also. In 1818, life insurance business formed in the name of oriental life insurance company in Calcutta. But the company has failed in 1834, however in several times it has established in different names like Bombay Mutual (1871), Oriental (1874), Empire of India (1897). In nineteenth century (1914), the Indian government started the insurance companies in India. In 1938, with a view to protect the public interest, insurance act has been published and 1950 insurance amendment act abolished the principal agencies. At last 1956, life insurance sector and Life Insurance Corporation has nationalized. This millennium has seen insurance come a full circle in a journey extending more than 200 years. In 1993, under the chairmanship of RN Malhotra, former governor of RBI several recommendations have been made in the insurance sector. In 1999, Insurance Regulatory and Development Authority (IRDA) were constituted under the Malhotra Committee recommendations. The Key objectives of IRDA are to promote competition and enhance customer satisfaction and ensuring the financial security. In 2000, IRDA opened up the insurance market and allowed foreign companies to invest 26% share. In 2014, allowing FDI from 26 % to 49% and it was further increased to 74% in May 2021. The insurance sector has witnessed many challenges over the years, including nationalization, constitution of IRDA, foreign direct investment etc, and now pandemic. This study will cover some of the key problems and issues that have been discussed in next phases.

Literature review

Rao and Bhaskara (2016) [4] focus on roles and responsibilities of insurance intermediaries in India. Insurance intermediaries not only agent of the company they also brand ambassador for the company, a friend, philosopher and guide to customer. They also help to build the confidence level of the customers and reducing risk of the investment in the future context.

According to James (2016) [2] without risk management and insurance support the economic development of a country cannot happen. He thinks that insurance is necessary for millions Indian. He explained three dimensions in this article such as vast uninsured segments, mostly under-insured and insured. Mallikarjun (2019) [3] explained about insurance ombudsman has been serving its purpose and also resolving grievances of insurance consumers over the years. He suggested some remedies like more focus on insurer complained, more focus on higher pecuniary jurisdiction would definitely usher in a greater perspective. He thought if the above suggestions are taken for consideration, the insurance ombudsman can be more effective.

Bajpai and Jha (2020) [1] focus on block chain technology on framework level on insurance. In this article they mainly focused that the technology on cyber insurance may see a positive growth in the market. The major issue of security focused on buyer and insurance provider while buying insuring and claim settlement process.

Shah (2020) observed that continuous adoption of different technologies can change the way of life insurance besides providing best-in-class customer experience. He also told that insurer must take step to adopt the emerging technologies in order to make the life easy for the employees or stakeholders.

According to Roy, Thakur and Bandyopadhyay (2020) insurance industry facing several challenges like low penetration, density rates, less investment, dominant position of public sector insurer etc. They also address more that insurance industry growing dynamically in the last couple of years although Indian insurance market remains abysmally low.

Objectives

Following objectives are discussed for the purpose of this study,

1. To find out the satisfactory level of service which were rendered by the insurance industry during pandemic.
2. To find out the effect of unemployment during pandemic on insurance industry.
3. To find out the relationship between GST and mutual fund and insurance industry.

Methodology

Data Collection: This study based on primary data. The data were collected through a structured questionnaire. The data were structured on the basis of 5 point Likert Scale. The data were collected from 128 respondents.

Variable Used

Total 10 variables have been selected for the purpose of this study, such as 1) Easy of contact and communication, 2) Flexibility in dealing, 3) Compatibility of fees, 4) Availability of information, 5) Service during pandemic, 6) Removing complaint, 7) Effect of mutual fund industry, 8) Unemployment during pandemic, 9) Financial security and 10) GST on insurance policy.

Data Analysis

This study evaluates the 10 variables which were collected through a structured questionnaire. Reliability statistics have been used to examine the data reliability and factor analysis are used to identify the factors, which are strongly associated for this study. Multiple regression analysis and correlation statistics also used to measure the overall situation of this study

Plan of the study

1. Factor analysis helps to identify the factors which are strongly associated with the objectives.
2. Is there any relationship between unemployment and downfall of insurance industry?
3. Is there any effect of mutual fund growth on insurance industry?
4. Is there any effect of GST on insurance premium.

Pre and post Covid Situation

In India, insurance sector has been growing rapidly in recent years. But several factors like, low penetration and density rates, inadequate investment in insurance products can challenges to insurance industries. Insurance contract provides risk coverage to the insurer. The investors bought insurance because it gives peace of mind. The primary purpose of the insurance is to provide risk coverage. Risk coverage and savings are the most important aspect of life insurance and it is more common in developing countries like India. Before the Covid-19 pandemic, the life insurance sectors were on a stable footing and growing strongly in India. In insurance industry customer have evolved importantly and look for the most transparent and seamless experience. The Covid-19 pandemic has created unforeseen challenges for several businesses across the world, nevertheless after the pandemic situation, many people consider insurance to be a strong safeguard against unforeseen circumstances. After pandemic hit in India, life insurance businesses were hit hard which customer behavior made a paradigm shift. In India, investors of insurance company mainly invest their savings, but due to pandemic many people were jobless and uncertainty over salaries, as a result only few people take a new policy in this period. Several preliminary data show that the insurance industry was severely hit by the pandemic. Due to the unfavorable economic condition caused by the Covid-19 pandemic is essential to define new priorities and adopt insurance company's strategies to unusual economic conditions. After Covid-19 pandemic mainly four factors impact on the insurance industry. These are –

1. Service of insurance industry during Covid-19 pandemic
2. Unemployment conditions
3. Growth of mutual funds, and
4. GST on insurance product.

Statistical analysis

Table 1: Reliability Statistics

Cronbach's Alpha	N of Items
.686	10

Source: Results calculated by the researcher.

Cronbach's Alpha is a measure of internal consistency. It is considered to be a measure of scale reliability. The alpha coefficient for the 10 items is 0.686. It means data have relatively high internal consistency, because the value is 0.6 or higher

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.579
Bartlett's Test of Sphericity	Approx. Chi-Square	219.093
	Df	45
	Sig.	.000

Source: Results calculated by the researcher.

KMO (Kaiser-Meyer-Olkin) measure is a test conducted to examine the strength to determine how the factors explain each other between the variables. KMO value greater than 0.5 are considering ideal. Here the value is 0.579, it means the factors are well explained. The Bartlett's test of Sphericity is used to test the null hypothesis that the correlation matrix is an identity matrix.

Table 3: Factor Analysis

Variables	Effect of Mutual fund and GST (Factor-I)	Availability of Service (Factor-II)	Flexible in dealing (Factor-III)	Effect of Unemployment (Factor-IV)	Communalities
Removing complaints (Var-6)	0.715	-	-	-	0.555
Effect of Mutual Fund (Var-7)	0.638	-	-	-	0.473
GST on insurance policy (Var-10)	0.654	-	-	-	0.464

Compatibility of fees (Var-3)	-	0.561	-	-	0.614
Availability of information (Var-4)	-	0.772	-	-	0.656
Service of pandemic (Var-5)	-	0.713	-	-	0.789
Easy of contact and Communication (Var-1)	-	-	0.826	-	0.755
Flexibility in dealing (Var-2)	-	-	0.776	-	0.681
Unemployment during pandemic (Var-8)	-	-	-	0.776	0.757
Financial security (Var-9)	-	-	-	0.723	0.662
Eigen value	2.648	1.417	1.225	1.115	-
% of Variance	26.481	14.174	12.252	11.151	64.058

Extraction Method: Principal Component Analysis, Rotation
Method: Varimax with Kaiser Normalization.
Source: Results calculated by the researcher.

Factor analysis is a technique that is used to reduce a large number of variables into fewer numbers of factors. It is also known as 'dimension reduction'. Here we use principal component analysis (PCA) technique. The advantage of PCA is that it automatically weights each of the variables in the calculation. The relationship of each variable to the underlying factor is expressed by the factor loading. Var-6, Var-7 and Var-8 are strong associated with Factor-I (Effect of Mutual fund and GST), here the factor loadings are 0.715, 0.638 and 0.654. Var-3, Var-4 and Var-5 are strong associated with Factor-2 (Availability of Service) and the loadings are 0.561, 0.772 and 0.713 respectively. Factor-3 (Flexible in dealing) also strongly associated with Var-1 and Var-2 with loadings 0.826 and 0.776 and the last factor-4 (Effect of Unemployment) also strongly associated with Var-8 and Var-9 with factor loadings 0.776 and 0.723 respectively. Communality is a definition of common variance that ranges between 0 and 1. Value closer to 1 suggests that extracted factors explain more of the variance of an individual item. The value of communality of each variable are well explained in this factor analysis. Eigen values represent the total variance which explained the principal component. The value can be positive or negative. If Eigen value is greater than zero then it is good. The Eigen values of the factors are 2.648, 1.417, 1.225 and 1.115 respectively. The whole factor analysis will explain 64.058 per cent variance overall.

Table 4: Multiple Regression Analysis between Factor-1 (Effect of Mutual fund and GST) and other variables:

Model	Unstandardized co-efficient	S.E.	Prob.	VIF
(Constant)	-4.869	.000	.000	
VAR00001	.130	.000	.000	1.309
VAR00002	-.105	.000	.000	1.419
VAR00003	-.277	.000	.000	1.366
VAR00004	-.058	.000	.000	1.452
VAR00005	.270	.000	.000	1.426
VAR00006	.378	.000	.000	1.467
VAR00007	.388	.000	.000	1.329
VAR00008	.086	.000	.000	1.623
VAR00009	-.037	.000	.000	1.397
VAR00010	.504	.000	.000	1.289
Durbin-Watson	1.128			
Prob.	0.000			

Source: Results calculated by the researcher.

Multiple regression analysis has been made in this study to assess the relationship between Factor-I (Effect of Mutual fund and GST) and other variables. The three explanatory variables i.e. Variable-6, variable-7 and variable-10 are positively associated with Effect of Mutual fund and GST. When variable-6 changes by one unit the Effect of Mutual fund and GST will also change by 0.378, when variable-7 changes by one unit the Effect of Mutual fund and GST will also change by 0.388, and one unit change of variable-10 the Factor-I also changes by 0.504. The probability of F-statistics also indicates the positive result means influence between dependent and independent variables. Durbin-Watson statistic is a test for autocorrelation in a regression models output. A value from 0 to less than 2 mean there is a positive auto correlation. Here the value (1.128) indicates there is a positive correlation between factor scored and other variables.

Table 5: Multiple Regression Analysis between Factor-2 (Availability of Service) and other variables:

Model	Unstandardized co-efficient	S.E.	Prob.	VIF
(Constant)	-3.357	.000	.000	
VAR00001	-.146	.000	.000	1.309
VAR00002	.076	.000	.000	1.419
VAR00003	.325	.000	.000	1.366
VAR00004	.424	.000	.000	1.452
VAR00005	.520	.000	.000	1.426
VAR00006	.021	.000	.000	1.467
VAR00007	-.031	.000	.000	1.329
VAR00008	-.208	.000	.000	1.623
VAR00009	.146	.000	.000	1.397
VAR00010	-.167	.000	.000	1.289
Durbin-Watson	0.686			
Prob.	0.000			

Source: Results calculated by the researcher.

The three explanatory variables i.e. Variable-3, variable-4 and variable-5 are positively associated with Factor-2 (Availability of Service). When variable-3 changes by one unit the Availability of Service will also change by 0.325, when variable-4 changes by one unit the Availability of Service will also change by 0.424, and one unit change of variable-5 the Availability of Service also changes by 0.520. The probability of F-statistics also indicates the positive result means influence between dependent and independent variables. Durbin-Watson statistic is a test for autocorrelation in a

regression models output. A value from 0 to less than 2 mean there is a positive auto correlation. Here the value (0.686) indicates there is a positive correlation between factor scored and other variables.

Table 6: Multiple Regression Analysis between Factor-3 (Flexible in dealing) and other variables:

Model	Unstandardized co-efficient	S.E.	Prob.	VIF
(Constant)	-4.147	.000	.000	
VAR00001	.584	.000	.000	1.309
VAR00002	.594	.000	.000	1.419
VAR00003	.175	.000	.000	1.366
VAR00004	-.009	.000	.000	1.452
VAR00005	-.160	.000	.000	1.426
VAR00006	-.074	.000	.000	1.467
VAR00007	-.020	.000	.000	1.329
VAR00008	.047	.000	.000	1.623
VAR00009	-.210	.000	.000	1.397
VAR00010	.104	.000	.000	1.289
Durbin-Watson	0.688			
Prob.	0.000			

Source: Results calculated by the researcher.

The two explanatory variables i.e. Variable-1 and variable-2 are positively associated with Factor-3 (Flexible in dealing). When variable-1 changes by one unit the Flexible in dealing will also change by 0.584, when variable-2 changes by one unit the Flexible in dealing will also change by 0.594. The probability of F-statistics also indicates the positive result means influence between dependent and independent variables. Durbin-Watson statistic is a test for autocorrelation in a regression models output. A value from 0 to less than 2 mean there is a positive auto correlation. Here the value (0.688) indicates there is a positive correlation between factor scored and other variables.

Table 7: Multiple Regression Analysis between Factor-4 (Effect of unemployment) and other variables:

Model	Unstandardized co-efficient	S.E.	Prob.	VIF
(Constant)	-2.996	.000	.000	
VAR00001	-.185	.000	.000	1.309
VAR00002	.021	.000	.000	1.419
VAR00003	.207	.000	.000	1.366
VAR00004	.036	.000	.000	1.452
VAR00005	-.396	.000	.000	1.426
VAR00006	-.030	.000	.000	1.467
VAR00007	.057	.000	.000	1.329
VAR00008	.545	.000	.000	1.623
VAR00009	.569	.000	.000	1.397
VAR00010	-.076	.000	.000	1.289
Durbin-Watson	1.355			
Prob.	0.000			

Source: Results calculated by the researcher.

The two explanatory variables i.e. Variable-8 and variable-9 are positively associated with Factor-4 (Effect of unemployment). When variable-8 changes by one unit the Effect of unemployment will also change by 0.545, when variable-9 changes by one unit the Effect of unemployment will also change by 0.569. The probability of F-statistics also indicates the positive result means influence between dependent and independent variables. Durbin-Watson statistic is a test for autocorrelation in a regression models output. A value from 0 to less than 2 mean there is a positive auto correlation. Here the value (1.355) indicates there is a positive correlation between factor scored and other variables.

Conclusion

Insurance companies work as a catalyst in the overall development of the economy. Insurance industry always remains a source of long term funds, which is vital for the infrastructure development. As we all know that insurance industry always plays a vital role in national economies, it means any disruption badly affected to the entire economy. The Covid-19 pandemic is an unprecedented event which makes it a disaster for the insurance industry. The negative effect of pandemic will undoubtedly be visible both in asset and liabilities of insurance industry. The impact of pandemic in insurance industry is difficult to describe. In our study many endogenous factors like, service of insurance companies during pandemic, unemployment conditions, growth of mutual funds and GST on insurance product will influence the further development of the situations. Pandemic will hit long term effect in social risk perception and also awareness program. In this paper, several issues have been raised and well explained through the factor analysis.

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