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# GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON INDIAN INSURANCE INDUSTRY

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## ABSTRACT

*The global financial crisis is an outcome of deep economic recession which generally refers to business cycle contraction and slowdown activity over a long period of time. It is a situation where macro indicator like gross domestic product, employment, capital utilisation, household incomes and business profit fall and bankruptcies and unemployment rates are rise. Global Financial Crisis is among the greatest financial challenges to the world economy which is originated in United States of America. The global economic slowdown is unprecedented in scale and has severe implications on policy formulation among emerging market. The financial crisis may primarily be a banking crisis, and the solvency of the insurance sector as a whole does not appear to be threatened. Currently India has one of the largest insurance markets in the world. Strong economic growth in the last decade combined with a population of over a billion makes it one of the potentially largest markets in the future. This paper provides an overview of global financial crisis (GFC) and its impact on the Indian insurance industry. It identifies the channels through which the GFC has impacted the global economy and evaluates performance of insurance industry of India during the crisis period.*

## KEYWORDS

Global Financial crisis, Insurance, India.

## INTRODUCTION

The current global economic slowdown is of an unprecedented form, one that has not been experienced since the establishment of the current world economic order after the end of the Second World War in 1945 which causing heavy fall in world stock market, collapsed of large financial institution, increase in unemployment and shrinking in governmental revenues. Even in government of wealthiest nations had to come up with rescue packages to bail out their financial systems. The crisis has exposed fundamental weaknesses in financial systems worldwide, demonstrated how interconnected and interdependent economies are today. Although recent data indicate the large industrialised economies may have reached bottom and are beginning to recover for the most part. Subprime losses of this financial crisis was much higher than the combined total losses incurred during the previous major crisis that included the US savings and loan crisis during 1986-95, Japan banking crisis of 1990-99 and Asian banking crisis 1998-99. For the compensation of such a heavy losses numerous plans were put forwarded, the secretary of treasury of US announced $ 700 billion financial aid packages intended to limit the damage.

## NEED AND OBJECTIVE OF THE STUDY

The study covers the entire world economy whether developed or developing, in terms of measure the impact of financial crisis. The focus is shifted on causes and emergence of financial crisis and how it extends to worldwide. Indian insurance market moved to newer heights in the twenty first century and the investors were getting reasonable income from their investments in the insurance markets. The objective of the study are;-

- To study the causes of global financial crisis.
- To evaluate the performance of stock market in crisis period.
- To study the growth prospects of insurance industry in India.
- To analyze its impact of financial crisis on the India insurance industry in India.

## METHODOLOGY

In order to examine the impact of financial crisis on insurance industry in India, the first year premium of life insurance industry taking into consideration because share of life insurance business in total premium collection is more than 80 per cent in India. Data is collected from monthly report of IRDA and classified into two sub periods namely, crisis period and post crisis period. The period from April 2008 to December 2008 is taken as crisis period and January 2009 to March 2010 is taken as post crisis period.

## DATA ANALYSIS TOOLS

The statistical tools "Student-t test" is conducted to determine if there is an impact of financial crisis on insurance industry in India. The results are then tested at 5% level of significance and formula used;

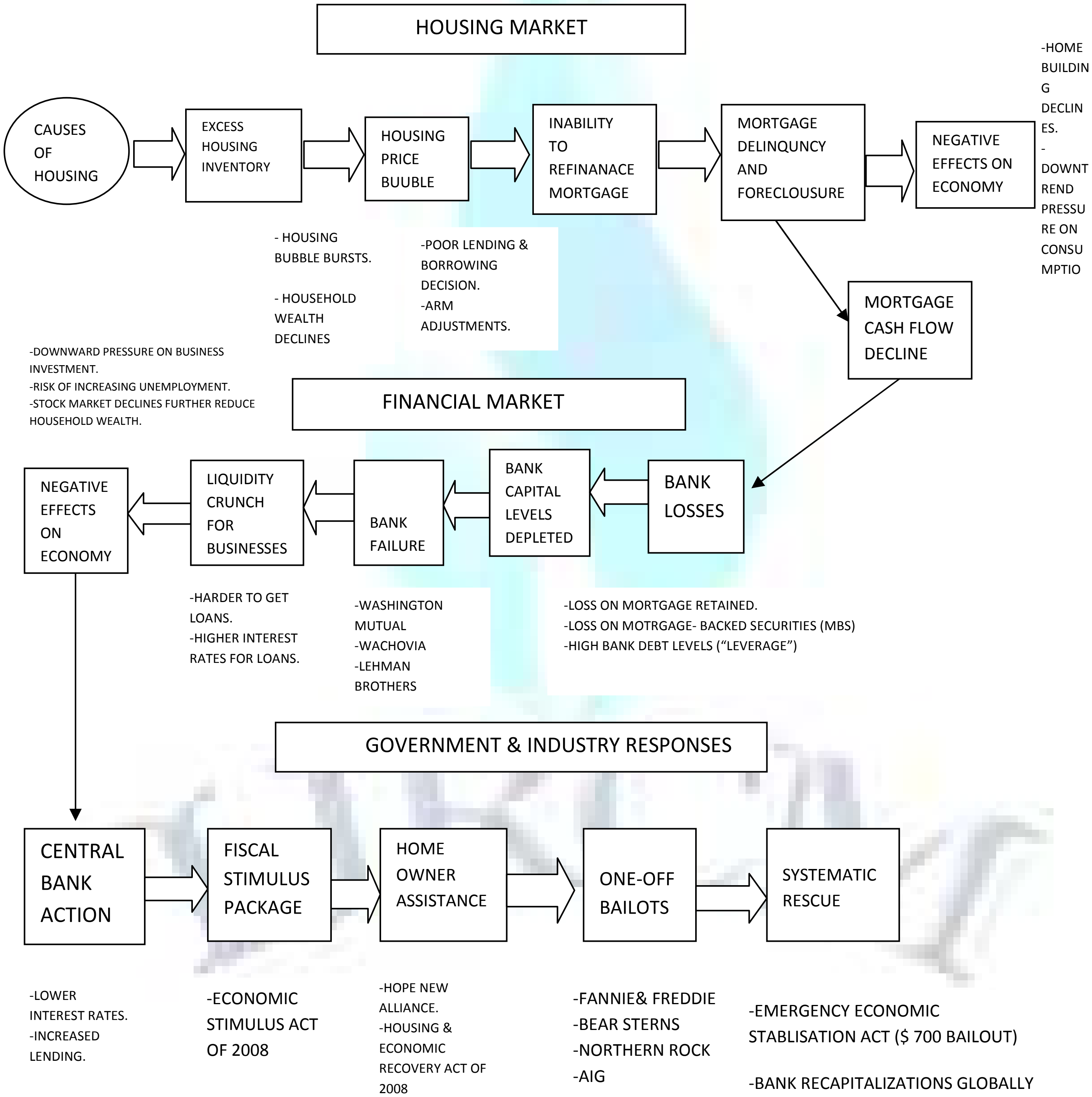
$$1\text{- } S = \sqrt{\frac{\sum(X_1-M_1)^2 + \sum(X_2-M_2)^2}{n_1+n_2-2}}$$

$$2\text{- } t = \frac{M_1 - M2}{S}\sqrt{\frac{n_1 n_2}{n_1+n_2}}$$

## FINANCIAL CRISIS

The events of 2008 have already passed into history, but they still have the power to take our breath away. The ugly signs of financial crisis first manifested in Feb. 2007 when the London based HSBC sacked the chief executive of its North America mortgage lending business after it reported losses of $105.4 billion. Within the fortnight DR Horton, the largest real a state company in the US warned of huge subprime related losses. By July end when Bear sterns, one of the biggest players in the subprime market, talked to trouble at two of its hedge funds. The global financial crisis came to its forefront of business world after the second quarter of 2008, with the failure of number of American financial companies. At the same time US bureau of labour statistics declared the unemployment figures were at 6.1 %. In the great depression unemployment rate is higher than 25%. The commerce department reported the GDP growth was at 2.8%, shows indication of recession, although this was revised down from 3.3% figure projected a month ago. The financial crisis literally reduced Wall Street into fall street. Some of the well established Wall Street investment banks were became victim of financial crisis. Fannie Mae and Freddie Mac would be nationalised to ensure the financial stability on 7th September 2008. After a week, it came into light that financial services firm Lehman Brothers would file to bankruptcy after being denies support by the Federal Reserve. On 15th September 2008 Merrill lynch acquired by the bank of America. Due to above factors global market indices were crashed. On 16th September 2008, the giant AIG (American Insurance Group) the world's top insurer, which suffered due to its credit rating being reduced, was helped by Federal Reserve which created $85 billion credit facility to stop it from collapse.

**FIGURE- 1: SUBPRIME MORTGAGE CRISIS**




SOURCE: http://en.wikipedia.org/wiki/File:Subprime_Crisis_Diagram_-_X1.png

Over the next two week, Golden Sachs and Morgan Stanley converted into commercial bank so that they have more market liquidity. On 28th September 2008, it was announced that Fortis, a large banking financial firms would be semi nationalised with Luxemburg. The very next day another US bank Wachovia would be bought by CITI group and stock market values fell dramatically in reaction of failure of financial institution in the US.

The problem began when banks thought the solution to relining was with subprime mortgages. Banks deceitfully offered significantly discounted interest rates that would eventually skyrocket after an initial 2 year term. In some cases, the principal was higher after the two year period. The problem was that loans were granted to people with very poor credit ratings, including to people with Loan to Value (LTV) ratios of more than 88% compared to the maximum cut off of 75% which is arguably also pushing it. Another problem was that people were able to provide their own income which was never verified. In this critical situation banks grouped the loans into Mortgage Backed Securities (MBS) which were bought by various investment banks who converted MBS into new financial instruments called Collateralised Debt Obligation (CDO). The banks originally developed MBS because they are only required to hold 1.6% of capital for mortgage backed securities, compared to 4% to hold a mortgage. The CDO instruments were then setup in the Cayman Islands to avoid taxes where they were then artificially rated by credit agencies who received most of their income from structured finance products. The real problems were for firms that invested in CDO securities based on the artificial ratings. As people began to default their mortgages because of the new high rates after the initial 2 year term and falling home values, the CDO's failed along with the firms heavily invested in these securities. Many leading international banks started to sponsor of balance sheet Structured Investment Vehicles (SIVs) to freely undertake activities which were not possible otherwise because of regulatory norms of banks, like capital adequacy and management of liquidity risks. The SIVs faced no such constraints, and could borrow freely from short term Asset Backed Securities Paper (ABCP) market and take large leveraged position in paper like CDOs/CLOs whose valuation liquidity were most unknown. In pre crisis period, these SIV's or shadow banks generated good profit for the sponsoring banks. Once the crisis started, the sponsoring banks had to take the losses of the SIVs. It was the policy of the US government ever since the Great Depression, to promote housing through the financial system which led to the subprime mortgage crisis. It was the moral hazard begun with Long Term Capital Management (LTCM) bailout and the subsequent bailouts of financial firms which were not commercialised banks and whose bankruptcy did not threaten the deposit base, which lead to mispricing of risks; with financial intermediaries coming to believe that if their increasing of risk bets were successful, they stood to make immense financial gains and if they turned sour, the authority would get tax payers to bail them out. These distortions in US financial system were than internationalised by Asset Backed Securities (ABC) which increasingly came to be held by banks around the world. Packaging a host of different securities including a subprime mortgages into increasingly opaque securities in the belief that this diversification of the assets in each securities even more insecure. It was like packaging different types of meat into pies and selling them around the world. When then it turned out that there was an infected piece of meat which had been baked into many of the pies in the form of subprime mortgages which turned sour with the downturn in the US housing market, none of the holder pies around the world know contained the infected meat. All interbank lending based on these opaque, asset backed securities ceased and a global financial crisis was triggered. The immediate official response to the crisis, in which the insurer AIG was bailed out which them led it to fully repay its counterparties like Golden Sachs bailing them out it turn, only justified the beliefs of those who had undertaken the important lending that any losses would be borne by taxpayers. The subprime crisis is a raging problem that has taken the GFC by storm. The following charts shows the write downs made by various firms due to the impact of the subprime loans:

**TABLE- 1**

| FIRMS | W/O IN $BN | FIRMS | W/O IN $BN |
|---|---|---|---|
| UBS | 38.3 | MERRILL LYNCH | 25.1 |
| CITI GROUP | 22.1 | AIG | 17.2 |
| MORGAN STANLAY | 13.1 | HSBC | 10.7 |
| BANK OF AMERICA | 7.9 | DUSTSCHE BANK | 7.4 |
| WASHINGTON MUTUAL | 6.5 | RBS | 6 |
| CREDIT AGRICOLE | 6 | AMBAC | 6 |
| SOC GEN | 4.8 | WAACHOVIA | 4.7 |

SOURCE: "Tackling subprime- solution and suggestion" Banking and Finance, Jan 2010

## INTERNATIONALISATION OF GLOBAL FINANCIAL CRISIS

The intensification of the financial crisis in the international financial markets of advanced economies that started around mid-2007 has hit much harder than expected.GFC is not confine to one economy or a region but having a global contagion effect. Main reason behind the rapid spread of financial crisis that USA accounts for one fourth of world's GDP and a slowdown there has corresponding influence anywhere. Global financial crisis that emanated from United States (US) has led to liquidity and solvency problems all around the world. Countries like the UK and USA which have been at the centre of the crisis see their currencies in danger of sliding, both because their governments need to borrow abroad and because of a general lack of confidence. At the time of writing the dollar remains relatively strong simply because of the weakness of other currencies, but sterling has fallen dramatically against both the dollar and the euro. The magnitude of the crisis will depend on the response of the USA and EU. Trillion dollar rescue packages are launched around the world, but while the markets may eventually respond, the UK is already in a recession. Its magnitude will depend, in part, on how accommodative monetary policy can be, with the recent interest rate cut a sure sign the authorities are concerned more about the financial crisis than recent inflationary pressures. Global financial crisis has gripped the entire world economy, Europe, Australia, Asia, North America, South America are all severely hit by adverse gravity of the crisis. So far the crisis has mainly manifested itself in domestic monetary developments in the largest economies, although countries like Iceland, Ukraine, Hungary and the Baltic States have been driven to seek IMF or EU help. Investment bank UBS stated on October 6 that 2008 would see a clear global recession, with recovery unlikely for at least two years. Three days later UBS economists announced that the "beginning of the end" of the crisis had begun, with the world starting to make the necessary actions to fix the crisis: capital injection by governments; injection made systemically; interest rate cuts to help borrowers. The United Kingdom had started systemic injection, and the world's central banks were now cutting interest rates. The global economy weakened through 2008, with the final three months of the year being marked by a fall in global demand of unusual severity. Worse still, all available lead indicators point to the downslide continuing through most of 2009. The financial crisis that began in the US in 2007 has now become a full scale economic crisis affecting virtually the entire global economy, including countries which had not been directly exposed to the toxic financial assets that triggered off the crisis in the US and Europe. The Japanese economy second largest economy in the world has been reported to have declined by a 12.7 per cent annualised rate in 4Q08, the sharpest decline in 35 years. Table-2 shows the world trade projection, exports and imports of advanced and emerging countries projected by IMF.

**Table - 2: WORLD TRADE PROJECTIONS**

| % y/y | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| World trade volume (goods and services) | 9.4 | 7.2 | 4.1 | –2.8 | 3.2 |
| **Exports** | | | | | |
| Advanced economies | 8.4 | 5.9 | 3.1 | –3.7 | 2.1 |
| Emerging and developing economies | 11.2 | 9.6 | 5.6 | –0.8 | 5.4 |
| **Imports** | | | | | |
| Advanced economies | 7.5 | 4.5 | 1.5 | –3.1 | 1.9 |
| Emerging and developing economies | 14.9 | 14.5 | 10.4 | –2.2 | 5.8 |

Source: IMF, 2009.

According to the IMF, world trade growth is projected to contract by –2.8 per cent in 2009 after a peak of 9.4 per cent in 2006. In this worse scenario growth projection of world economy was also affected Export and Import of the advanced country is estimated to decline at a higher rate in comparison with emerging and developing country.

At the same time, a sharp decline in Asian countries foreign trade was presents a mirror image of the complete collapse of Asian trade. Table-3 depicts the comparative figure of May 2008 and May 2009, demonstrates the decline of merchandise export and import of Asian economy.

**TABLE - 3 COMPARATIVE STUDY OF EXPORT AND IMPORT OF ASIAN COUNTRY**

| Country | Export (Decline %) | Import (Decline %) |
|---|---|---|
| CHINA | 26.3 | 43.1 |
| INDIA | 37.1 | 37.3 |
| JAPAN | 49.4 | 42.7 |
| KOREA | 15.4 | 24.3 |
| MALAYSIA | 29.8 | 30.3 |
| TAIWAN | 26.6 | 40.3 |
| THAILAND | 44.4 | 56.6 |

Export of China was decline by 26.3% and import by 43.1% while the export figure of second largest economy Japan (in terms of GDP) was decline by 49.4%. India was also one of the victim of financial crisis where export and import contracted by 37%.

The financial crisis affected the world stock markets even in India. The combination of a rapid sell off by financial institutions and the prospect of economic slowdown have pulled down the stocks and commodities market. Stock prices have fallen by 60 per cent. India's stock market index—Sensex— touched above 21,000 marks in the month of January, 2008 and has plunged below 10,000 during October 2008. Table- 4 revealed the clear cut picture of major stock exchange and the impact of global financial crisis on world stock market during 2008.

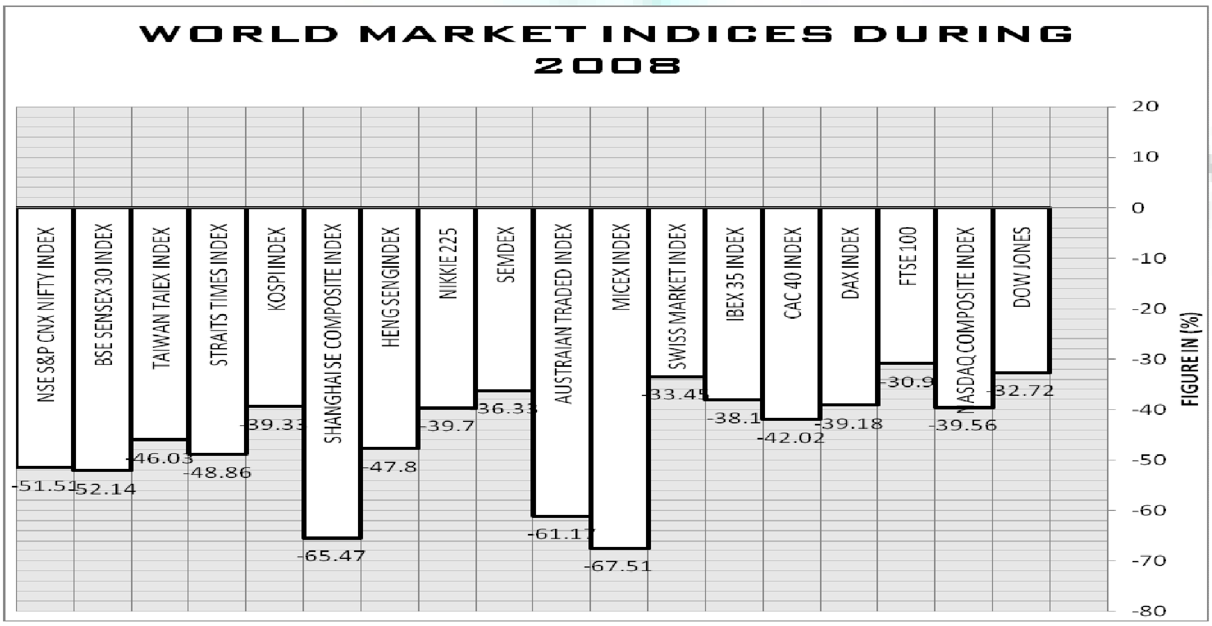
**TABLE - 4 IMPACT OF GLOBAL FINANCIAL CRISIS ON WORLD STOCK MARKET**

| COUNTRY | INDICES | STARTING OF 2008 | CLOSING OF 2008 | DECLINE IN % |
|---|---|---|---|---|
| USA | DOW JONES | 13043.96 | 8776.39 | -32.72 |
| USA | NASDAQ COMPOSITE INDEX | 2609.63 | 1577.03 | -39.56 |
| UK | FTSE 100 | 6416.7 | 4434.17 | -30.9 |
| GERMANY | DAX INDEX | 7908.41 | 4810.2 | -39.18 |
| FRANCE | CAC 40 INDEX | 5550.36 | 3217.97 | -42.02 |
| SPAIN | IBEX 35 INDEX | 14856.5 | 9195.8 | -38.1 |
| SWITZERLAND | SWISS MARKET INDEX | 8318.82 | 5534.53 | -33.45 |
| RUSSIA | MICEX INDEX | 1906.86 | 619.53 | -67.51 |
| AUSTRAIAN | AUSTRAIAN TRADED INDEX | 4509.24 | 1750.83 | -61.17 |
| MAURITIUS | SEMDEX | 1857.78 | 1182.75 | -36.33 |
| JAPAN | NIKKIE 225 | 14691.41 | 8859.56 | -39.7 |
| HONG KONG | HENG SENGINDEX | 27560.52 | 14387.48 | -47.8 |
| CHINA | SHANGHAI SE COMPOSITE INDEX | 5272.81 | 1820.8 | -65.47 |
| SOUTH KOREA | KOSPI INDEX | 1853.45 | 1124.47 | -39.33 |
| SINGAPORE | STRAITS TIMES INDEX | 3444.34 | 1761.56 | -48.86 |
| TAIWAN | TAIWAN TAIEX INDEX | 8506.28 | 4591.22 | -46.03 |
| INDIA | BSE SENSEX 30 INDEX | 20300.71 | 9716.16 | -52.14 |
| INDIA | NSE S&P CNX NIFTY INDEX | 6144.35 | 2979.5 | -51.51 |

SOURCE: http://www.bloomberg.com/markets/stocks/world-indexes/

During an economic decline, the global economy marked by a fell in collapse in the stock market. USA market indices Dow Jones fall down from 2609.63 at the starting of 2008 to 1577.03 at the end of the year and Japanese market from 14691.41to 8859.56 in 2008. The index fell 777 points on 29 September, its biggest ever one day fall. Stock market of china had a downfall of 65.47% in 2008. Indian stock market was also not untouched with the effect of global financial crisis. As the effect, BSE SENSEX (1978-79=100) falls down by 52.14% and NSE S&P CNX NIFTY INDEX by 51.51%.

**FIGURE – 2: TREND OF THE MAJOR STOCK EXCHANGE INDEX FOR THE FINANCIAL YEAR 2008**



## INDIAN INSURANCE INDUSTRY

Insurance is basically a protection against a financial loss which can arise on the happening of an unexpected event. Insurance companies collect premiums to provide for this protection. By paying a very small sum of money a person can safeguard himself and his family financially from an unfortunate event. Insurance is a contract between the person who buys Insurance and an Insurance company who sold the Policy. By entering into contract the Insurance Company agrees to pay the Policy holder or his family members a predetermined sum of money in case of any unfortunate event for a predetermined fixed sum payable which is in normal term called Insurance Premiums.

In India, insurance has a deep-rooted history. Insurance in various forms has been mentioned in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmashastra) and Kautilya (Arthashastra). The fundamental basis of the historical reference to insurance in these ancient Indian texts is the same i.e. pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. The early references to Insurance in these texts have reference to marine trade loans and carriers' contracts.

Insurance in its current form has its history dating back until 1818, when Oriental Life Insurance Company was started by Anita Bhavsar in kolkata to cater to the needs of European community. The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians with higher premiums being charged for the latter. In 1870, Bombay Mutual Life Assurance Society became the first Indian insurer. At the dawn of the twentieth century, many insurance companies were founded. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were passed to regulate the insurance business. The Life Insurance Companies Act, 1912 made it necessary that the premium-rate tables and periodical valuations of companies should be certified by an actuary. However, the disparity still existed as discrimination between Indian and foreign companies. The oldest existing insurance company in India is the National Insurance Company Ltd., which was founded in 1906. The Government of India issued an Ordinance on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The Life Insurance Corporation (LIC) absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. In 1972 with the General Insurance Business (Nationalisation) Act was passed by the Indian Parliament, and consequently, General Insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. Before that, the industry consisted of only two state insurers: Life Insurers (Life Insurance Corporation of India) and General Insurers (General Insurance Corporation of India)[1]. The Government introduced reforms in the insurance sector in 1990s, primarily to encourage more domestic investments to increase insurance coverage and create an efficient and competitive insurance industry. The Government's monopoly came to an end in 1991 when restrictions on the entry of private and foreign companies were lifted. The effect of insurance reforms has been positive on the insurance industry. There has been positive growth in all the segments, with investments flowing in the right direction. Reforms have helped to achieve rapid growth in critical areas and sustain them over a period of time through channelized strategies. The insurance sector, which was nationalised in 1956 (life) and 1972 (non-life), has been playing an important part in the country's financial development. In 1999 the Insurance Regulatory and Development Authority (IRDA) Act was enacted, which opened the insurance sector to private players. During the past 5 years, the sector grew in terms of size and in terms of penetration. After the sector was deregulated, the market was invaded by diverse insurance product offerings that stressed on marketing and distribution strategies. Though the insurance sector was highly concentrated, it showed a declining trend in concentration after the sector was opened to private participation.

The growing demand for insurance around the world is having a positive effect on the insurance industry in all economies. The global insurance premium for the year 2009 was USD 4066 billion, which is 1.1 per cent (inflation adjusted) lower than USD 4220 billion reported during the previous year 2008. The share of life insurance business was 57 per cent in total premium collection. While life insurance business collected USD 2331 billion as premium, the same for non-life business was USD 1735 billion. During 2009, the premium in life insurance business fell by 2 per cent on account of double digit decline in premium collection in USA and UK. However, compared to 2008, when life insurance premium fell by 5.8 per cent, this is an improvement on account of the improved sentiment in the calendar year 2009. The real growth in terms of global premium for the year of 2009 was in negative
(1.1%) where as growth in premium for industrialised nations was -1.8%. Emerging market reported to grew at the rate of 3.5% and the Asian country by 2.8% in terms of premium growth. In sixty-six per cent of the countries, insurance grew faster than GDP, which shows the robustness of the industry.

India is the 5th largest market in Asia by premium following Japan, Korea, China and Taiwan, has the potential to become one of the biggest insurance markets in the region. For India, increasing GDP, coupled with the growth in demand, has opened many doors for the country's insurance industry. In life insurance business, India ranked 9th among the 156 countries during 2009, the life insurance premium in India grew by 19.68 per cent where the global life insurance premium had contracted by 2 per cent. The share of Indian life insurance sector in global market was 2.45 per cent during 2009, as against 1.98 per cent in 2008. The non-life insurance sector witnessed a marginal growth of 1.6 per cent during 2009. However, its performance was better when compared to global non-life premium, which contracted by 0.1 per cent during the same period. The share of Indian non-life insurance premium in global non-life insurance premium remained very low at 0.46 per cent and India ranked 26th in global non-life insurance premium.

Insurance is a federal subject in India and the matter of solicitation. The Insurance industry in India has gone through a gradual change. Over the past decade, there has been increase in premiums, players and outreach. The number of insurers has also increased making it mandatory for the regulatory authorities to put in place a revised regulatory framework. The Insurance industry, like many other industries has also become competitive with number of insurers attracting investors with numerous product innovations. A combination of these factors along with strong economic growth in the last few years has positioned India as a regional insurance hub and now India aspires to be an international financial centre. The pace of growth of this industry is fast. Market structure and major players of Indian Insurance Industry may be classified as-

[1] http://en.wikipedia.org/wiki/Insurance_in_India

**TABLE-5**

MINISTRY OF FINANCE

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA)

LIFE INSURANCE (23)

NON-LIFE INSURANCE (24)

| ***PUBLIC*** | ***PRIVATE*** |
|---|---|
| LIC | ING Vysya |
| | HDFC Standard |
| | Birla Sunlife |
| | ICICI Prudential |
| | Kotak Mahindra |
| | TATA AIG |
| | SBI Life |
| | BAJAJ Allianz |
| | Max New York |
| | Met Life |
| | Reliance |
| | Aviva |
| | Sahara |
| | Shriram |
| | Bharti Axa |
| | Future Generali |
| | IDBI Federal |
| | Canara HSBC |
| | Aegon Religare |
| | DLF Pramerica |
| | Star Union Dai-ichi |
| | India First |

| ***PUBLIC*** | ***PRIVATE*** |
|---|---|
| National | Bajaj Allianz |
| New India | Bharti AXA |
| Oriental | Cholamandalam |
| United India | Future Generali |
| | HDFC Ergo |
| | ICICI Lombard |
| | IFFCO Tokio |
| | Raheja QBE |
| | Royal Sundaram |
| | Reliance |
| | SBI General |
| | Shriram |
| | TATA AIG |
| | Universal Sompo |

| ***SPECIALISED*** | ***RE-INSURER*** |
|---|---|
| AIC | GIC |
| Apollo Munich Health | |
| ECGC | |
| Max Bupa Health* | |
| Star Health | |

Note : * Insurers have commenced operations in 2009-10

Source- Annual report of IRDA 2009-10

## CAPITAL REQUIREMENT AND FOREIGN PARTICIPATION

The improvement in FDI flows reflected the impact of recent initiatives at creating an enabling environment for FDI and for encouraging infusion of new technologies and management practices. The government's proposal to increase the FDI cap in the insurance sector from the present 26 per cent to 49 per cent has raised expectation among the international insurance companies.

## FINANCIAL CRISIS AND INDIAN INSURANCE INDUSTRY

The Indian economy has been growing and has become one of the fast growing economies in the world. With the growth of industry, trade, and commerce the insurance also grew over a period of time and gained maturity. The insurance sector was opened up in the year 1999 facilitating the entry of private players into the industry. With an annual growth of 24.6 per cent and the largest number of policies in force, the potential of the insurance sector is huge. India's insurance industry recently underwent major structural changes. Both the life and general insurance sectors, which were nationalized in the 1950s and 1960s, respectively, saw an across-the-board liberalization process in 2000. Since then, the Indian insurance sector has enjoyed rapid growth. This remarkable increase has been a result of the growing contribution of the life insurance sector as compared to the general insurance sector. The contribution of life insurance premiums to the GDP called as Insurance Penetration has increased from 2.26% in 2003 to 4.6% in 2009. Life insurance penetration in India was less than 1 per cent till 1990-91.

During the 90's, it was between 1 and 2 per cent and from 2001 it was over 2 per cent. However, the contribution of the general insurance sector has remained almost constant. The growth of the insurance sector in the last decade has made it one of the promising sectors in the economy. Another measure of insurance development is per capita spending on insurance, i.e. insurance Density. An average Indian spent USD 11.5 on insurance products in 2001, comprising USD 9.1 for life insurance and USD 2.4 for non-life insurance products.

The following table depicts insurance premium as a percentage of GDP and Insurance density (life and general) in India:

**TABLE - 6 INSURANCE PENETRATION AND DENSITY IN INDIA**

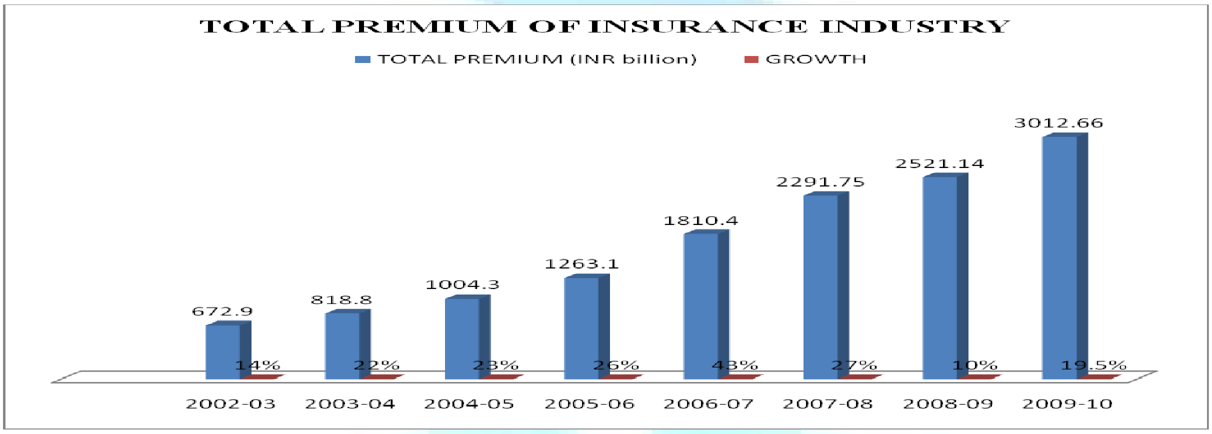
| YEAR | LIFE INSURANCE | | NON LIFE INSURANCE | | TOTAL | |
|---|---|---|---|---|---|---|
| | PENETRATION | DENSITY | PENETRATION | DENSITY | PENETRATION | DENSITY |
| 2001 | 2.15 | 9.1 | 0.56 | 2.4 | 2.71 | 11.5 |
| 2002 | 2.59 | 11.7 | 0.67 | 3.0 | 3.26 | 14.7 |
| 2003 | 2.26 | 12.9 | 0.62 | 3.5 | 2.88 | 16.4 |
| 2004 | 2.53 | 15.7 | 0.61 | 4.0 | 3.17 | 19.7 |
| 2005 | 2.53 | 18.3 | 0.61 | 4.4 | 3.14 | 22.7 |
| 2006 | 4.10 | 33.2 | 0.60 | 5.2 | 4.80 | 38.4 |
| 2007 | 4.00 | 40.4 | 0.60 | 6.2 | 4.70 | 46.6 |
| 2008 | 4.00 | 41.2 | 0.60 | 6.2 | 4.60 | 47.4 |
| 2009 | 4.60 | 47.7 | 0.60 | 6.7 | 5.20 | 54.3 |

Source; Swiss Re Sigma various volume and annual report of IRDA

- INSURANCE DENSITY IS MEASURED AS A RATIO OF PREMIUM (IN USD) TO TOTAL POPULATION.
- INSURANCE PENETRATION IS MEASURED A RATIO OF PREMIUM (IN USD) TO GDP.

The Indian insurance sector has seen rapid growth. The total premium of the insurance industry has grown at the rate of 19.49 per cent in 2009–10 to reach INR 3012.66 billion. Life insurance premium has grown at a high rate of 19.68 per cent valued INR 2654.5 billion in the same year. At the same time non life insurance total premium underwritten was INR 358.16 billion, grew at a rate of 18 per cent.

**FIGURE - 3 TRENDS SHOWING TOTAL PREMIUM OF INSURANCE INDUSTRY**




## TESTING OF HYPOTHESIS

**$H_0$ (Null Hypotheses)** = There is no significant difference on single year premium business of life insurers in India of global financial crisis.

**$H_A$ (Alternative Hypothesis)** = There is significant difference on single year premium business of life insurers in India of global financial crisis.

**TABLE-7 TEST OF HYPOTHESIS TO DETERMINE THE IMPACT OF GLOBAL FINANCIAL CRISIS ON SINGLE YEAR PREMIUM BUSINESS OF LIFE INSURERS IN INDIA**

| PREMIUM FOR CRISIS PERIOD | | | | PREMIUM FOR POST CRISIS PERIOD | | | |
|---|---|---|---|---|---|---|---|
| MONTH | $X_1$ | $X_1$-$M_1$ | $(X_1-M_1)^2$ | MONTH | $X_2$ | $(X_2-M_2)$ | $(X_2-M_2)^2$ |
| Apr-08 | 2780.1 | -3031.235556 | 9188388.993 | Jan-09 | 13043.7 | 3436.5253 | 11809706.37 |
| May-08 | 5339.22 | -472.1155556 | 222893.0978 | Feb-09 | 6679.93 | -2927.2447 | 8568761.339 |
| Jun-08 | 6201.32 | 389.9844444 | 152087.8669 | Mar-09 | 15090.9 | 5483.7253 | 30071243.53 |
| Jul-08 | 5858.41 | -3031.235556 | 9188388.993 | Apr-09 | 3601.58 | -6005.5947 | 36067167.3 |
| Aug-08 | 6273.57 | 462.2344444 | 213660.6816 | May-09 | 5052.47 | -4554.7047 | 20745334.6 |
| Sep-08 | 8148.55 | 2337.214444 | 5462571.359 | Jun-09 | 5802.28 | -3804.8947 | 14477223.42 |
| Oct-08 | 5087.37 | -723.9655556 | 524126.1256 | Jul-09 | 7540.21 | -2066.9647 | 4272342.933 |
| Nov-08 | 5652.39 | -158.9455556 | 25263.68963 | Aug-09 | 9044.18 | -562.99467 | 316962.9947 |
| Dec-08 | 6961.09 | 1149.754444 | 1321935.283 | Sep-09 | 8005.88 | -1601.2947 | 2564144.609 |
| | | | | Oct-09 | 7644.71 | -1962.4647 | 3851267.568 |
| | | | | Nov-09 | 8668.12 | -939.05467 | 881823.667 |
| | | | | Dec-09 | 12201.1 | 2593.9253 | 6728448.635 |
| | | | | Jan-10 | 7789.71 | -1817.4647 | 3303177.815 |
| | | | | Feb-10 | 8543.85 | -1063.3247 | 1130659.347 |
| | | | | Mar-10 | 25399 | 15791.825 | 249381747.4 |

$\sum X_{1=}$ 52302.02 $\sum X_{2=}$144107.62

$n_1=9$ $\sum(X_1-M_1)^2=26299316.09$ $n_2=15$ $\sum(X_2-M_2)^2=394170011.5$

$$M_1 = \frac{52302.02}{9} = 5811.33556 \qquad M_2 = \frac{144107.62}{15} = 9607.174667$$

$$S = \sqrt{\frac{\sum(X_1-M_1)^2 + \sum(X_2-M_2)^2}{n_1+n_2-2}} = 4371.755044$$

$$t = \frac{M_1 - M_2}{S}\sqrt{\frac{n_1 n_2}{n_1+n_2}} = 2.0595$$

For v = 22, t 0.05 = 1.72

## ANALYSIS OF TEST

The calculated value is more than the table value. Hence, the Null Hypothesis is rejected and Alternative Hypotheses is accepted. Global financial crisis had an impact on crisis and Post crisis premium of life insurance industry of the country. The above test reaffirmed the impact of global financial crisis on premium of life insurance industry in India, also supported by the figures which show single year premium collection of life insurers fall in March 2009 by 28.2 per cent as compare to March 2008. Growth rate of total premium of insurance industry has also increased but at a diminishing rate in 2008-09 in comparison of past years. in reality

## CONCLUSION

The global economic slowdown has hit the vital sectors of our economy, posing serious threats to economic growth. The crisis is forcing countries around the world to test the limits of their fiscal and monetary tools. India is no exception. A series of fiscal and monetary measures have been taken by the Government and the RBI to minimize the impact of the slowdown as also to restore the economic buoyancy.

The role of insurance companies may be describes as shock absorbers in the financial crisis. Insurance companies are major investors in financial markets. On aggregate, the largest investors worldwide are investment funds, followed by insurance companies and pension funds. Moreover, a part of the assets under management of private equity and hedge funds are owned by insurance companies and pension funds. Insurance companies have generally not had to sell into falling markets as a result of leverage, liquidity, regulatory and other considerations. They also have continued to write insurance business in a variety of areas, thus not only supporting economic activity in this context, but also generating premium incomes that have at least partly been re-invested in financial assets making these investors major players in global financial markets. One of the positive factors for insurance companies is that they are typically funded by a relatively stable flow of premiums, with very limited reliance on short-term market funding. As a result, they typically bear far less liquidity risk than commercial or investment banking firms.

Finally paper is concluded with the remark that the impact of the slowdown on India's growth rate is certainly not alarming. India still is one of the fastest growing economies in the world. With the right mix of monetary and fiscal policies plus domestic reforms of the productive sectors, as an economy, India has the potential to emerge from this global recession stronger than before.

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