

# Reinsurance Landscape in India

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## Abstract

Human civilization is vulnerable to numerous threats pertaining to life and property. These threats hamper the ability of individuals to grow assertively in economic spheres without any support. Therefore the need of protection covers initiated the concept of insurance. But again insurance institutions themselves are not insulated to the risks, more particularly when they exceed from micro levels to macro levels. So to rescue the insurers from huge losses the concept of reinsurance emerged. Reinsurance not only provide protection to insurers against wide range of risks but also finance their activities. This paper attempts to transcribe the development account of reinsurance sector in India.

**Keywords:** Insurance, Reinsurance, Concept, Reinsurance Development, India.

## Introduction

Human life and property is exposed to numerous natural and manmade catastrophes. Insurance industry plays a key role in providing financial security by hedging against these risks. But insurance industry itself is not immune to business risks and hence requires insurance for itself. So insurance for insurance company is termed as reinsurance, wherein an insurance company purchases an insurance cover from another insurance company against chances of paying hefty claims arising out of natural or manmade disasters. In this way multiple insurance companies pool risk and resources to insulate themselves from the risk of major claims.

## Reinsurance Concept

Reinsurance is a risk management practice or insurance of insurance companies by ceding (passing on) insurance liabilities to another insurance company. The purchaser of reinsurance policy is known as cedent or ceding company, whereas the company issuing reinsurance policy is termed as reinsurer. An Insurance company that purchases reinsurance policy pays the premiums to reinsurance company. Reinsurance can be done through two methods i. e. Facultative Reinsurance and Treaty Reinsurance:

### Facultative reinsurance

Facultative reinsurance contracts are purchased by the cedent or primary insurer to cover an individual risk or a defined package of risks held by it. The reinsurer reserves the right to accept or reject the risk that is whether to insure the policyholder/risk or not. Such type of reinsurance contracts are used for very high value or hazardous risk transactions.

### Treaty Reinsurance

Treaty Reinsurance are pre-negotiated contracts between the cedent and the reinsurer wherein, cedent agrees to cede all risks within a specific class to the reinsurance company. In other words in this type of reinsurance reinsurer agrees to indemnify all risks of a predetermined class of policies over a period of time without individual underwriting.

### Review of Literature

The review of existing literature helps in providing a foundation for developing an appropriate research hypothesis along with providing a fundamental understanding of different research perspectives. An extensive literature deals with reinsurance, but a few have been investigated concerning the research need.

Kumar (2017), in the paper, Reinsurance Liberalisation in India: Will it Make Indian Insurance Market Sustainable? investigated the implications of liberalization of reinsurance sector in India. The research raised apprehensions against consequences of this policy. The research raised the doubts that under liberalization policy in reinsurance, the preferential rights given to foreign reinsurers might push up insurance premium, impede price competition and concentrate risks.

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Nema and Jain (2012), In the paper titled "Growth of Reinsurance in India" analysed the growth of reinsurance sector in India during five years (2005-2010) in various forms of reinsurance. The paper specifically studied the growth patterns of "GIC Re" the national reinsurer. The paper concluded that business of GIC as a reinsurer registered consistent growth pattern during study period in terms of premiums and profits gained. Research revealed that reinsurance claims also recorded a continuous growth pattern during the year 2005-2010 and therefore GIC Re held a dominant position in Indian reinsurance sector.

Ramana (2008), In the paper titled "Insurance and Reinsurance: The industry on the growth Trajectory" investigated that insurance and reinsurance sectors in India are having vast potentials. Owing to it both the sectors have registered upward trends in overall growth. The study further examined that liberalisation and globalization policies in this sector, rationalization of regulatory mechanisms and innovations in marketing mix of insurance products that is, product design, pricing policies and distribution mechanisms have further supported the growth journey of the industry

Cummins (2007), In the research titled, "Reinsurance for Natural and Manmade catastrophes in the United States: Current state of the Market and Regulatory Reforms" attempted to study the reaction of the world's reinsurance industry towards natural and manmade disasters occurred in that time span. the research recommended for regulatory reforms for improving the efficiency of reinsurance markets. The research also suggested that public and private sector should have strategic alliances for combating terrorism losses. The research also discovered that reinsurance sector of United States responded swiftly and resourcefully through fresh capital infusions and improving on risk and exposure management. The

investigations further contend for the scope of improvement in dealing with natural and manmade mega-catastrophes especially terrorism.

❖ **Objectives of the Study:**

This study is concocted to achieve the following objectives: .

1. To study the concept of reinsurance business.
2. To study the growth and development of reinsurance sector in India.
3. To have a snapshot of current and future scenario of Indian reinsurance sector.

❖ **Research Methodology:**

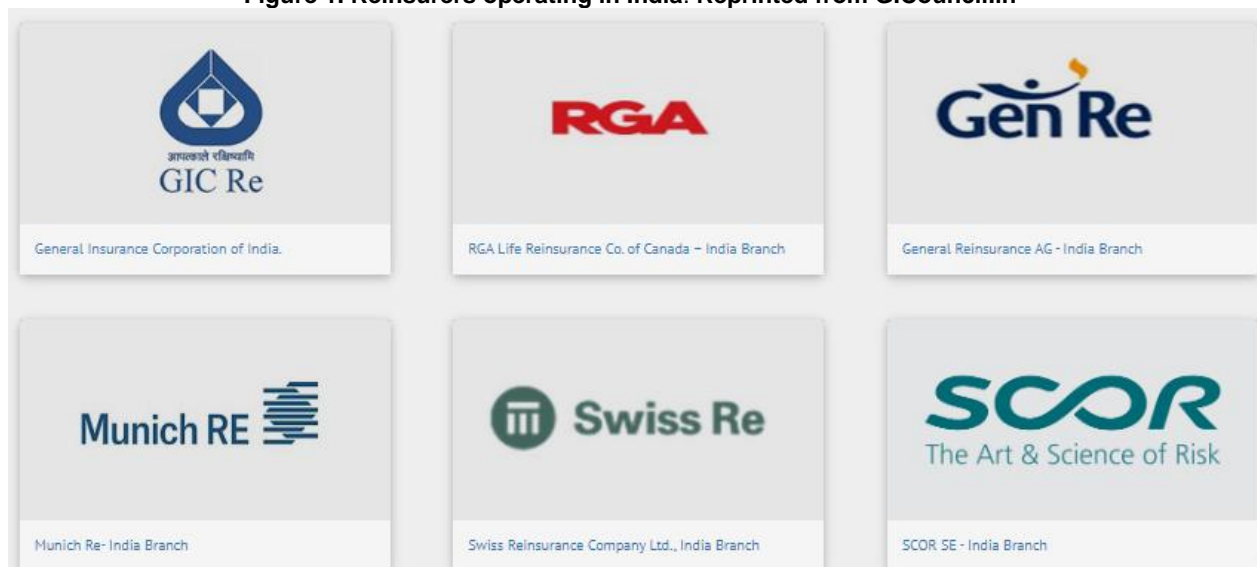
The present study is based on secondary data, mainly collected from IRDA and GIC Re annual reports, IRDAI journals, research papers and websites.

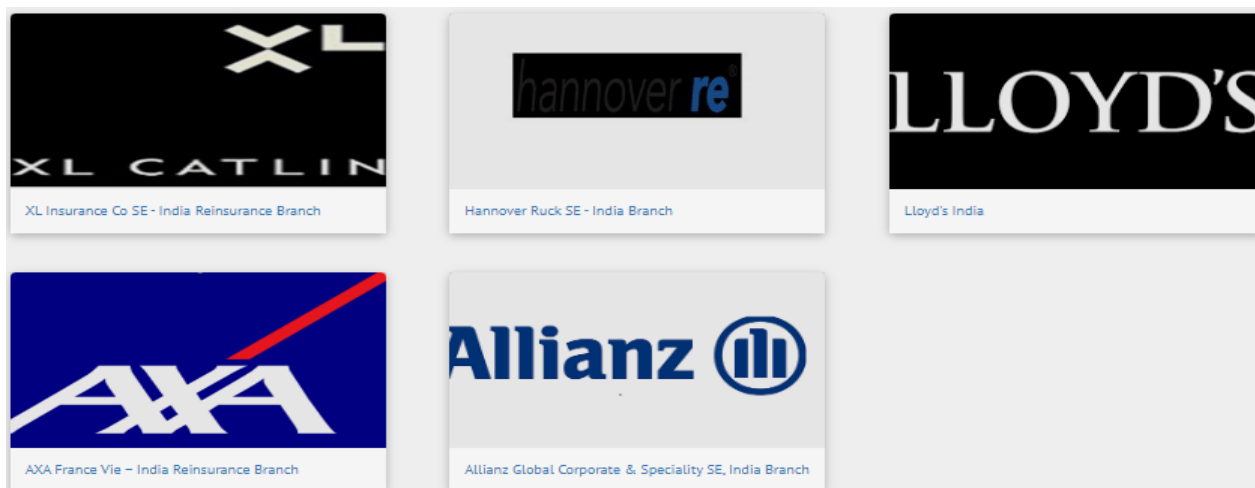
❖ **Reinsurance Scenario in India:**

In November 2000, General Insurance Corporation of India (GIC) was notified as India's Re insurer. As of 2012 GIC Re was ranked 14th largest Re insurer in the world (S&P Ratings). Till now it is the leading player in India's reinsurance landscape although its share terms of premiums have dropped from 99.8 per cent in financial year 2017 to approximately 83 per cent in financial year 2018, after foreign reinsurers were allowed to operate in India. Presently following reinsurers are operating in India.

1. General Insurance Corporation of India
2. RGA Life Reinsurance Co. of Canada – India Branch
3. General Reinsurance AG - India Branch
4. Munich Re- India Branch
5. Swiss Reinsurance Company Ltd., India Branch
6. SCOR SE - India Branch
7. XL Insurance Co SE - India Reinsurance Branch
8. Hannover Ruck SE - India Branch
9. Lloyd's India
10. AXA France Vie – India Reinsurance Branch
11. Allianz Global Corporate & Speciality SE, India Branch

**Figure 1. Reinsurers operating in India. Reprinted from GICouncil.in**





## Historical Background of Indian Reinsurance Sector

### Reinsurance in Pre - Nationalization Period

Prior to nationalization period reinsurance sector in India was at a very nascent stage. After 1951, although Indian insurance business increased immensely due to surge in economic activities yet, reinsurance business was acutely underdeveloped. In the name of reinsurance, Indian insurance companies created a pool to share the risks attached to insurance business. In the year 1956 first Indian reinsurance company named 'Indian Reinsurance Corporation' was formed. In the year 1961 Government mandated for the insurance companies to cede 20 per cent in fire and Marine cargo insurance, 10 per cent in Marine hull and miscellaneous insurance business and 5 per cent in credit and solvency insurance business with approved Indian reinsurers such as Indian Reinsurance Corporation and Indian Guarantee and General Company.

### Post Nationalization Developments

With the nationalization of General insurance business by Nationalization Act 1972, General Insurance Corporation of India (GIC) emerged as a statutory body to control general insurance business in India. However it continued to receive 20 percent mandatory cessions along with arrangements of reinsurance protections for insurance companies.

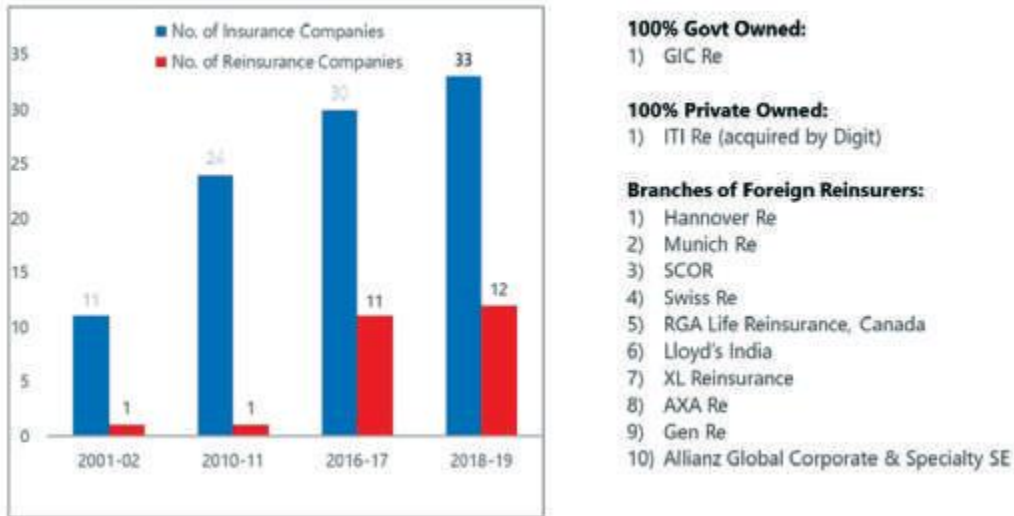
### Post Liberalization Developments

With the initiation of liberalization proceedings of Indian insurance industry, Indian Regulatory and Development of India (IRDA) emerged as regulator and controller of the industry on 19th April, 2000. With this event from March 21, 2003 General Insurance Business (Nationalization) Amendment Act 2002 became operative and GIC

ceased to be a holding company of its four subsidiaries the National Insurance Company Limited, the New India Assurance Company Limited, The Oriental Insurance Company Limited, United India Insurance Company Limited. General Insurance Company was notified as national reinsurer and became a government of India enterprise with monopoly function of reinsurance. The head office and registered office of the GIC was established in Mumbai. GIC Re remained exclusive reinsurance company in the Indian reinsurance landscape until the insurance market was unlocked to foreign reinsurance players by late 2016. GIC Re 'the national reinsurer' got listed on National Stock exchange on October 25, 2017 and emerged as 10th largest global reinsurer among top 40 global reinsurers and 3rd largest reinsurer in Asia (GIC Annual Report 2018-19)

Indian Regulatory and Development of India enacted Insurance Laws (Amendment) Act 2015, which permitted the entry of foreign reinsurers through establishment of branch offices in India. Insurance Regulatory and Development Authority of India (IRDAI) set the ball rolling for foreign reinsurers by issuing the IRDAI (Registration and Operations of Branch Offices of Foreign Reinsurers other than Lloyd's) Regulations 2015 (Branch Office Regulations) and the IRDAI (Lloyd's India) Regulations 2016 (Lloyd's India Regulations), paving the way for foreign reinsurers to establish branches in India and for Lloyd's to launch reinsurance business in India. IRDAI allowed ITI Reinsurance Limited (ITI) to conduct reinsurance operations in India alongside GIC by granting certificate of registration. IRDAI also granted certificate of registration to Lloyd's and other five foreign reinsurers to establish their branches in India.

Figure 2. Insurance and Reinsurance Market in Post-Nationalization Era, Reprinted from “Reinsurance and Indian Reinsurance Market,” by Riddhi Biswas, 2019, p. 24. Copyright 2019 by IRDAI Journal march 2019.



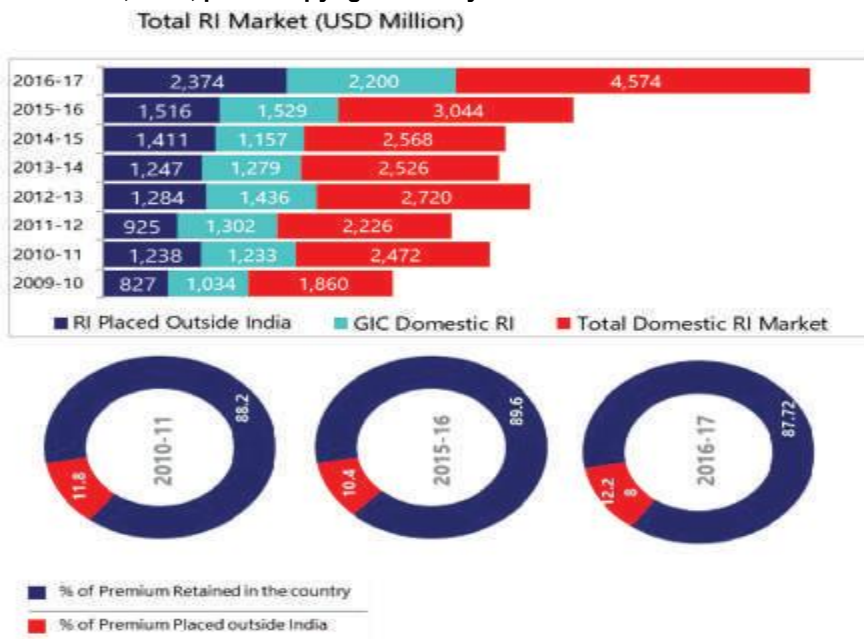
**Current Scenario of Indian Reinsurance**

India represents lucrative business opportunities for reinsurers on account of huge population reservoir, which is largely uninsured or underinsured, rapidly extending middle class with growing affluence and comparatively low insurance density and penetration levels compared to other economies. Above all massive growth in industrialization and urbanization demands for compelling investment in the sector. The Indian reinsurance market currently stands at worth approximately INR 300,000 million (US\$ 47 billion) annually. It is estimated to accelerate to INR 700,000 million by the year 2022 (Kalyani and Murthy, 2019). GIC Re retained top position in Indian reinsurance sector with 60 per cent share in the year 2016-17. Indian reinsurance sector is witnessing vibrant

changes with gradual rise in reinsurance market from the year 2009-2010 to 2015-2016 in terms of US dollars, constituting foreign and domestic segments. the sector experienced a tremendous rise in both overseas and domestic sections with USD 4.574 billion in the year 2016-2017 from USD 3.044 billion in the previous year 2015-2016 as depicted in figure (Biswas, 2019).

Indian reinsurance sector enjoys an enormous potential with huge consortium of domestic customer base of 58 Insurance companies consisting of 24 Life insurance companies among which one is in public sector and 23 are in private sector; and 34 non-life insurance companies among which 6 are in public sector and 28 are in private sector (Kalyani and Murthy, 2019).

Figure 3. Structure of Indian Reinsurance Market, Reprinted from “Reinsurance and Indian Reinsurance Market,” by Riddhi Biswas, 2019, p. 24. Copyright 2019 by IRDAI Journal march 2019.



The structure of Indian reinsurance landscape can be judged from the product portfolio composition of the industry leader that is GIC Re.

which comprise approximately 44 percent premiums ceded by Indian insurers to reinsurers during financial year 2019 (Dave, 2019).

**Figure 4: Composition of Reinsurance premium received by GIC Re.** Reprinted from “Reinsurance - It’s Evolution and Role in the Indian Context,” by Sanjay Datta, 2019, p. 37. Copyright 2019 by IRDAI Journal march 2019.

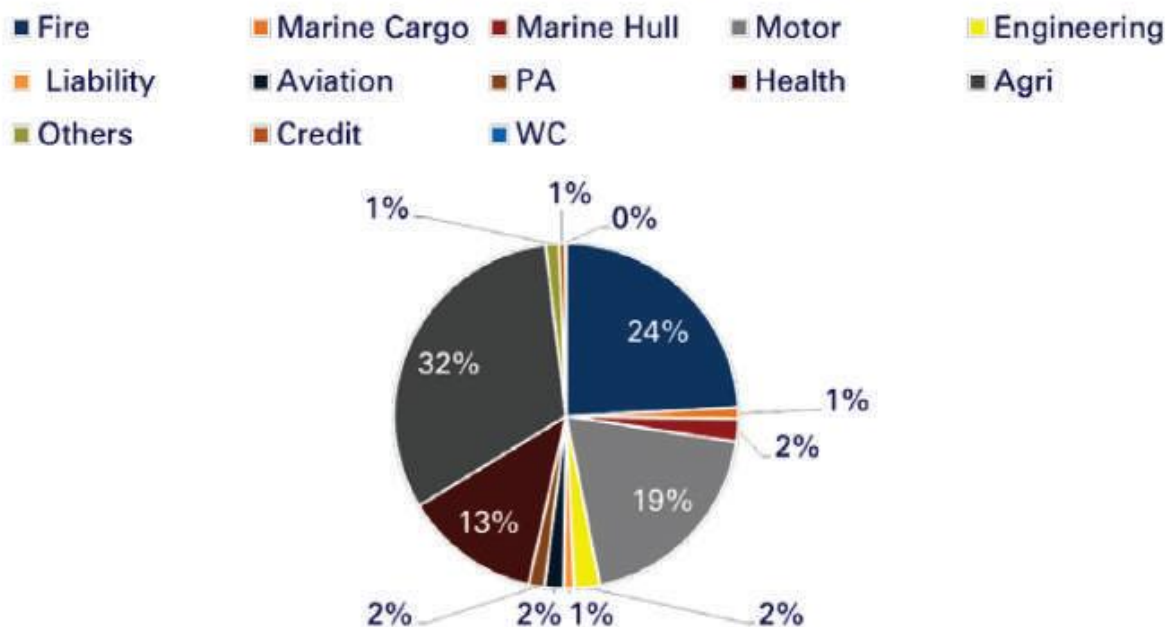


Figure 4 presents that a major chunk of GIC reinsurance premiums is retained by Agriculture with 32 percent, followed by Fire with 24 percent, Motor with 19 percent and health with 13 percent. Whereas Marine cargo, Marine Hull, Engineering, Liability, Aviation, Personal Accident (PA), Credit and Worker's Compensation (WC) accounts for a meager portion ranging from 0-2 percent (Datta, 2019).

**Future Outlook**

1. Economic growth of a country is accompanied with numerous risks, which are mitigated by primary insurance sector and which in turn is backed by reinsurance. Therefore reinsurance market acts as a catalyst of development of a nation. As Indian economy is rapidly developing and as a virtue of this, it is endeavouring greater risks. Although Indian reinsurance sector is trying to supplement this growth journey by concentrating risks in various dimensions, yet it need to amplify it coverage area by innovating more on personal lines such as Health, Motor and Home etc. It also need to infuse more capital base to support infrastructure projects on dams, ports, roads and other engineering projects.
2. There lies a gigantic reservoir of reinsurance business in India, which attracts foreign entities in the sector. But complicacies in service tax and GST and high rates of taxation in India may limit their investments in the sector and adversely hit the business avenues. So, there is challenge in front of Government and the regulatory to simplify taxation system and also to offer certain tax

concession to foreign players to encourage to augment a robust reinsurance industry.

3. There is scope for increase in Foreign Direct Investment in the sector so as to curtail reinsurance costs, generate employment avenues, strengthen capital markets in the country and enhance competition in domestic reinsurance industry. Moreover India can also reap the fruits of foreign expertise in recent product innovations such as, cyber liability, sharing economy-related liability, etc. Overseas entrants may not only introduce global practices in risk and claim management to advantage the entire insurance and reinsurance industry but also boost customer confidence.
4. The regulatory authority 'Insurance Regulatory and Development Authority of India' is consistently working to expand reinsurance market in India by fabricating a favourable regulatory framework. Recent regulations passed by the authority in 2108 will definitely contribute in maximising the retention ratios inside the country. The regulations, amendments and recommendations will also boost confidence of foreign reinsurance branches in Indian reinsurance mechanisms. Above all the ongoing reforms in the sector will pave the way for India in realizing global best practices in the field.

**Conclusion**

Undoubtedly reinsurance acts as spinal cord for insurance industry by operating as a shock absorber especially in the events of natural disasters or manmade catastrophes like earthquakes, tsunamis,

floods, national or international turbulences, outbreak of pandemics etc. In such events of extensive losses the reinsurers acts as a rescuer to the insurers. The latest outbreak of worldwide pandemic COVID-19 is the latest example of vitality of reinsurance sector. Certainly reinsurance acts as a vital cog in the wheel of insurance sector and will help in steering the economy to higher levels of economic growth and prosperity.

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