



Research Article

## A Descriptive Study of the Growth of the Indian Insurance Sector and the Persistent Gap in Insurance Penetration and Coverage

Arpan Annjal <sup>1\*</sup>, Dr. Jyoti Sondhi <sup>2</sup>, Dr. Divya Rai <sup>3</sup>, Dr. Avinash Rana <sup>4</sup>, Hemant Kapoor <sup>5</sup>

<sup>1</sup> MBA Student, School of Management, Abhilashi University, Mandi, Himachal Pradesh, India

<sup>2</sup> Associate Professor, School of Management, Abhilashi University, Mandi, Himachal Pradesh, India

<sup>3,4,5</sup> Assistant Professor, School of Management, Abhilashi University, Mandi, Himachal Pradesh, India

Corresponding Author: \* Arpan Annjal

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### Abstract

The Indian insurance industry has undergone a dramatic transformation over the past two and a half decades. What was once a sector dominated entirely by state-owned entities has become a competitive, technology-driven market with over 70 insurers and annual gross premiums crossing INR 10 lakh crore. This research paper examines how that growth happened, what the data reveals about the current state of the sector, and what structural challenges continue to hold it back from realising its full potential. The study is based entirely on secondary data drawn from IRDAI Annual Reports (2015–16 to 2023–24), Life Insurance Corporation of India disclosures, HDFC Life annual reports, Reserve Bank of India publications, Swiss Re Sigma reports, government scheme documents, and academic articles sourced from Google Scholar and JSTOR. No primary surveys or interviews were conducted. Key findings indicate that while premium volumes, number of insurers, and digital reach have improved substantially, insurance penetration in India at around 3.8% of GDP remains far below the global average. Rural areas are disproportionately underinsured, claim settlement disputes remain common, and consumer trust damaged by decades of mis-selling has not fully recovered. The paper concludes with recommendations for regulators, industry players, and policymakers to close these gaps.

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**KEYWORDS:** Insurance Sector, IRDAI, Insurance Penetration, Life Insurance, Non-Life Insurance, India, Challenges, Liberalisation, Secondary Data.

## 1. INTRODUCTION

Insurance plays a foundational role in any economy. It allows individuals and businesses to transfer financial risk, protects households from catastrophic loss, and channels long-term savings into productive investment. Despite its importance, India's insurance sector remained trapped in a government monopoly model for nearly fifty years after independence. The result was a market with few products, limited reach, and no incentive for innovation.

The liberalisation of 1999–2000 changed all of that. The passage of the Insurance Regulatory and Development Authority (IRDAI) Act in 1999 and the subsequent opening of the sector to private players in 2000 marked the beginning of a new era. Foreign companies were allowed to enter through joint ventures, initially capped at 26% equity ownership, later raised to 49% in 2015 and then to 74% in 2021. This gradual opening brought capital, international expertise, and most importantly, competition that forced all players to improve.

Today, India ranks among the top ten global insurance markets by premium volume. Yet despite this scale, the country's penetration and density figures tell a humbling story. A nation of 1.4 billion people, where the per-capita insurance spend is around USD 91, compared to a global average of over USD 800, has a long road ahead. This paper tries to understand that gap and what needs to happen to close it.

## 2. REVIEW OF LITERATURE

Dr Dhananjay Rakshit (2017) <sup>[1]</sup> analysed the growth of insurance density and insurance penetration in India after the reforms in the insurance sector. The study explained that liberalisation and the entry of private insurance companies increased competition and improved insurance services in India. The researcher found that both life insurance and non-life insurance sectors showed significant growth during the period 2000–01 to 2013–14. The study also highlighted that life insurance contributes more strongly to the Indian insurance market compared to non-life insurance.

S. Rajesh and R. Kannan (2019) <sup>[2]</sup> studied the growth and performance of the Indian insurance industry after liberalisation. The authors explained that private sector participation and technological advancement improved customer services and increased insurance penetration in India. The study concluded that awareness regarding financial security and risk management contributed significantly to the growth of the insurance sector.

Neha Sharma and Pooja Arora (2020) <sup>[3]</sup> examined customer satisfaction and digitalisation in the insurance sector. The study highlighted that online insurance services, digital claim settlement, and technological innovation improved customer convenience and service quality. The authors found that digital transformation increased customer trust and efficiency in insurance operations.

Kabir Ahmed (2021) <sup>[4]</sup> studied the Indian insurance sector and explained its role in economic development and financial security. The study highlighted that the insurance industry in India has grown rapidly after liberalisation due to private sector participation and increasing customer awareness. The author

concluded that insurance services help individuals manage financial risks and improve economic stability.

Mamta (2022) <sup>[5]</sup> analysed insurance penetration and density in India using IRDAI data. The study found that life insurance contributes more significantly to the Indian insurance market compared to non-life insurance. The research also explained that increasing awareness, digitalisation, and rising income levels positively influence insurance growth in India.

Jitendra Singh Chauhan and Praveen Singh (2023) <sup>[6]</sup> examined the growth of online insurance services in India. The study highlighted the importance of digital technology, internet usage, and online platforms in transforming the insurance industry. The authors concluded that digital insurance services improve customer convenience, policy accessibility, and overall market growth.

## 3. RESEARCH METHODOLOGY

### RESEARCH DESIGN

This study follows a descriptive research design. The objective is to describe, analyse, and interpret the growth trajectory and current challenges of the Indian insurance sector, rather than to test a specific hypothesis or establish causal relationships. Descriptive research is appropriate here because the sector is well-documented through authoritative annual reports and regulatory publications, and the purpose of the study is to compile and interpret that existing knowledge.

### DATA TYPE AND SOURCES

The study relies exclusively on secondary data. The following sources were consulted:

- IRDAI Annual Reports from 2015–16 to 2023–24 for premium data, penetration figures, claim settlement ratios, and market structure information
- LIC Annual Reports for understanding the dominant public sector insurer's performance
- HDFC Life Annual Reports as a representative private sector life insurer
- RBI Handbook of Statistics on Indian Economy — for macroeconomic context
- Swiss Re Sigma Reports (2022, 2023) for international benchmarking
- Government of India documents on PMJJBY, PMSBY, PMFBY, and FDI policy changes
- Peer-reviewed articles from Google Scholar and JSTOR on insurance penetration, microinsurance, and regulatory policy
- NITI Aayog reports on health insurance

### Growth of the Indian Insurance Sector Pre-Liberalisation Structure

Before 2000, India's insurance landscape was defined by two monopolies. Life Insurance Corporation of India, formed in 1956 by merging 245 private insurers, handled all life insurance business. The General Insurance Corporation of India, along with four subsidiary companies, controlled non-life insurance after nationalisation in 1972. For nearly four decades, these entities operated without competition, with little pressure to innovate or improve customer experience. Premium growth

during this period was modest, and distribution was confined largely to urban centres and organised sector employees.

### Liberalisation and Entry of Private Players

The opening of the sector in 2000 triggered a period of sustained growth and structural change. Private companies entered both life and non-life segments, bringing new distribution models, sharper underwriting, and aggressive customer acquisition strategies. By 2023–24, the number of registered insurers had grown to over 70, including 24 life companies, 33 general and standalone health insurers, and 2 reinsurers. Table 1 shows the expansion in market participants over time.

**Table 1:** Growth in Number of Insurers (Source: IRDAI Annual Reports)

Year	Life Insurers	Non-Life Insurers	Total Insurers
2000–01	2	9	11
2005–06	15	13	28
2010–11	23	24	47
2015–16	24	28	52
2022–23	24	33+	70+

### Premium Growth

The most visible indicator of sector growth is total premiums collected. From approximately INR 50,000 crore in 2001–02, total premiums have grown to over INR 10.85 lakh crore by 2022–23 — a more than twenty-fold increase in nominal terms. Life insurance continues to dominate the premium mix, accounting for roughly 75–76% of the total, but non-life insurance has consistently grown faster in recent years, driven primarily by health and motor insurance.

**Table 2:** Total Insurance Premium in India (Source: IRDAI Annual Reports)

Year	Life Premium (INR Cr)	Non-Life Premium (INR Cr)	Total Premium (INR Cr)
2005–06	1,56,091	28,412	1,84,503
2010–11	2,91,839	52,965	3,44,804
2015–16	3,66,070	96,378	4,62,448
2019–20	6,31,973	1,88,470	8,20,443
2022–23	8,28,655	2,56,804	10,85,459

### Penetration and Density

Insurance penetration (total premium as % of GDP) rose from 2.71% in 2001 to a peak of 4.2% in 2021–22, partly reflecting pandemic-driven demand before settling at approximately 3.8% in 2022–23. The global average sits at around 6–7%, with advanced economies like South Africa and the UK recording penetration above 10%. Insurance density, measured as premium per capita in USD, improved from USD 11.5 in 2001 to around USD 91 in 2022–23. The global average is over USD 800. These comparisons show that while India's absolute growth has been impressive, the gap with international benchmarks remains large.

### Digital Transformation

Digital technology has reshaped how insurance is distributed and processed. Insurtech companies like Acko, Digit Insurance, and Turtle Mint brought fully online policy issuance and renewal to Indian consumers. Traditional insurers responded by building their own digital platforms. IRDAI introduced the

Regulatory Sandbox in 2019, allowing controlled experimentation with parametric insurance, AI-driven underwriting, and usage-based motor products. The COVID-19 pandemic accelerated the adoption of further video-based claim surveys, contactless renewals, and digital health policy issuance became standard practice rather than exceptions during 2020–22.

### Government-Sponsored Social Insurance

The government has run several large-scale subsidised insurance schemes to extend basic coverage to low-income households. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) offers life cover of INR 2 lakh for an annual premium of INR 436. Pradhan Mantri Suraksha Bima Yojana (PMSBY) provides accidental death cover for just INR 20 per year. As of March 2024, enrolment under PMJJBY exceeded 18 crore, and under PMSBY exceeded 34 crore, numbers made possible by the Jan Dhan banking infrastructure used for premium auto-debit. Pradhan Mantri Fasal Bima Yojana (PMFBY) has provided crop loss cover to farmers at subsidised premiums, disbursing thousands of crores in claim settlements during flood and drought years.

### Key Challenges Facing the Sector

#### Persistently Low Insurance Penetration

Despite visible growth, India's insurance penetration remains far below its potential. The gap between the current 3.8% GDP penetration and the global average of 6–7% represents hundreds of crores in uncollected premiums and, more importantly, hundreds of millions of people without financial protection. The penetration problem is not uniformly distributed: health and property insurance for individuals remain particularly underpenetrated even in urban markets, where awareness and income levels are relatively higher.

Life insurance in India is often purchased more as an investment or tax-saving instrument than as genuine risk protection. This distorts the market — endowment and savings-linked plans dominate sales while pure term insurance, which offers the highest coverage for the lowest cost, remains undersold. This is partly a product design issue and partly a reflection of how agents are incentivised to sell higher-commission products.

#### The Rural-Urban Divide

Rural India, home to over 60% of the population, generates a disproportionately small share of insurance premiums. The reasons are structural. Per capita incomes are lower, literacy levels are lower, the presence of insurance agents is thinner, and the nearest bank branch is often many kilometres away. Beyond logistics, the cultural perception of insurance as a product for the wealthy and one that pays out only when something bad happens is deeply embedded in rural communities.

Research by Gupta and Singh (2021)<sup>[7]</sup> confirms that insurance enrolment in rural districts is strongly correlated with the density of banking infrastructure and the presence of local agents. Areas served by Common Service Centres (CSCs) show measurably higher enrolment in government insurance

schemes. This suggests that the distribution gap, rather than lack of product availability, is the primary constraint.

### Consumer Trust and Mis-selling

One of the most persistent and damaging problems facing the industry is the erosion of consumer trust. In the early years after liberalisation, the race for market share led many insurers and their agents to sell products with incomplete or misleading information. Unit-linked insurance plans (ULIPs) were sold as 'market-linked investment products' without adequately disclosing the mortality charges, fund management fees, and surrender penalties embedded in them. Policyholders who surrendered these plans after three or four years often received back less than what they had paid in premiums.

The damage from these episodes was lasting. Consumer forums and the Insurance Ombudsman received thousands of complaints annually through the 2010s, many related to mis-sold policies from the previous decade. Even today, that institutional memory shapes how many Indian households think about insurance with suspicion rather than confidence. Rebuilding this trust requires not just regulatory enforcement but a fundamental shift in how the industry relates to its customers.

### Claim Settlement Quality

A policy is only meaningful if the claim it promises is paid fairly and promptly. This is where many insurers continue to fall short. While life insurance claim settlement ratios have improved significantly — most major private life insurers now report individual death claim ratios above 97–98% — the health and general insurance segments continue to face serious problems. Last-minute cashless hospitalisation denials, repeated document requests during reimbursement claims, and technical repudiations on grounds not clearly communicated at the time of policy sale are common grievances.

The Ombudsman complaint data from IRDAI's 2022–23 Annual Report shows that health insurance continues to generate the highest volume of complaints, followed by motor insurance. Settlement delays impose direct financial harm on claimants, particularly those in lower-income groups who cannot absorb hospital bills or vehicle repair costs while waiting months for reimbursement.

### Distribution Bottlenecks

Insurance distribution in India is heavily dependent on individual agents and bancassurance (insurance sold through bank branches). While the agent count runs into millions, agent productivity is low, and attrition is high. A large proportion of licensed agents sell one or two policies and then become inactive. The economics of rural agency are particularly unfavourable, with low policy sizes, high servicing effort, and limited renewal commissions making sustained rural agency unviable for most companies without structural support.

Online direct sales have grown but still account for a relatively small share of total premiums, particularly in life insurance, where the product complexity and the human element of financial planning discussions make pure digital sales difficult. Developing a distribution model that is economically viable in

tier-3 and tier-4 towns and rural areas is one of the sector's most pressing unsolved problems.

### Competition and Pricing Sustainability

The entry of 70-plus insurers has brought competition, but also pricing pressure that has not always been healthy. In segments like motor third-party insurance and group health, some companies have underpriced premiums aggressively to gain volume, resulting in combined ratios exceeding 100% — meaning they pay out more in claims and expenses than they collect in premiums. This is not sustainable. When companies correct these pricing errors, the resulting premium hikes hurt consumers who relied on the earlier low prices.

### Role of IRDAI in Sector Development

The Insurance Regulatory and Development Authority of India (IRDAI) was established under the IRDAI Act, 1999, with a triple mandate: to develop the insurance sector, to regulate market conduct, and to protect the interests of policyholders. Over the past 25 years, IRDAI has evolved considerably — from a newly formed body finding its feet in a newly liberalised market to a credible regulatory institution with a broad toolkit for market oversight.

### Entry Regulation and Financial Oversight

IRDAI controls who enters the insurance market. Applicants must demonstrate a minimum paid-up capital of INR 100 crore, a credible business plan, and fit-and-proper promoter credentials. Once licensed, companies must maintain a solvency margin of at least 150% at all times — ensuring they hold sufficient assets to meet their policy liabilities even under stress. These requirements have generally protected policyholders from insurer insolvency, though a few companies have faced regulatory intervention over capital adequacy concerns.

### Policyholder Protection Measures

IRDAI has introduced several concrete measures to protect buyers. The free-look period of 15–30 days allows a policyholder to return a newly issued life policy without penalty (except for proportionate risk premium) if they decide it does not suit them. Standardisation of critical illness product definitions across insurers prevents companies from using different wording to deny claims that a reasonable person would expect to be covered. The mandatory annual publication of each insurer's claim settlement ratio on the IRDAI website gives consumers a verifiable basis for comparing companies before they buy.

The Insurance Ombudsman network, operating through 17 offices across the country, provides a free and legally binding dispute resolution mechanism for claims up to INR 50 lakh. In 2022–23, Ombudsmen disposed of over 95% of complaints received, though the volume of complaints itself signals how much still needs to improve at the industry level.

## 4. FINDINGS

- The Indian insurance sector has recorded substantial growth since liberalisation, with total premiums rising from

approximately INR 50,000 crore in 2001–02 to over INR 10.85 lakh crore in 2022–23. Both life and non-life segments have contributed to this growth, with health insurance emerging as the fastest-growing non-life sub-segment.

- Insurance penetration has improved from 2.71% of GDP in 2001 to approximately 3.8% in 2022–23. However, this figure remains significantly below the global average of 6–7% and well below penetration levels in comparable emerging economies. The gap signals that a large proportion of the population continues to have no meaningful insurance protection.
- Private insurers have become important market participants. In life insurance, they collectively hold around 34–35% of new business premiums. In non-life insurance, private and standalone health companies have overtaken public sector insurers in premium volume, reflecting sharper product focus and more proactive distribution.
- Rural insurance penetration remains severely inadequate. The distribution infrastructure in terms of agent presence, banking access, and awareness has not kept pace with the government's social insurance enrolment achievements through schemes like PMJJBY and PMSBY.
- Claim settlement quality, particularly in health and general insurance, continues to generate significant consumer dissatisfaction. The volume of Insurance Ombudsman complaints is high, and the types of complaints, such as cashless denials, document delays, and technical repudiations, point to systemic issues rather than isolated incidents.
- The trust deficit created by mis-selling in the early liberalisation years persists and continues to affect voluntary insurance purchase decisions. This is a behavioural and institutional challenge that regulation alone cannot solve.
- IRDAI has developed into a credible regulator with meaningful consumer protection tools, though enforcement consistency remains an area for improvement.

## SUGGESTIONS

- Financial literacy programs about insurance should be systematically integrated into school and college curricula, and delivered in local languages through gram panchayats, community health workers, and self-help groups. Awareness campaigns should focus on explaining what insurance does and how claims work, not on selling specific products.
- IRDAI should establish binding timelines for claim decisions across all product categories, not just life insurance, with automatic financial penalties for delays. Technology-based claim processing tools should be mandated for large insurers to reduce human subjectivity and processing time.
- Rural distribution infrastructure must be expanded through partnerships with Common Service Centres, postal networks, and microfinance institutions. Microinsurance products with simple language, low premiums, and easy

claim processes should be developed specifically for agricultural and informal sector households.

- All insurance sales conversations involving complex products (ULIPs, endowment plans, health riders) should be recorded digitally and retained for a minimum of three years, accessible to IRDAI for supervisory review. This would create accountability in the sales process and reduce the scope for mis-selling.
- The Bima Sugam digital marketplace should be operationalised with a clear timeline, and its design should prioritise ease of use for first-time buyers in tier-3 and tier-4 cities. Integration with Digi Locker and the Ayushman Bharat health ID would strengthen the digital insurance ecosystem.
- IRDAI should expand and simplify the Regulatory Sandbox framework to allow smaller Insurtech companies to participate, and should fast-track regulatory guidelines for parametric insurance products, which have demonstrated the potential to transform crop and disaster insurance delivery.

## 5. CONCLUSION

The story of India's insurance sector over the past 25 years is one of genuine transformation — but also of unfinished work. The market has gone from two public-sector monopolies serving a limited urban clientele to a 70-plus company industry with digital distribution, innovative products, and crores of enrolled policyholders under government schemes. Premiums have multiplied many times over. The regulator has matured. Technology has created access that was unimaginable a generation ago.

And yet, the most important number in this entire story may be the one that reveals the gap: only about 3.8% of GDP in insurance penetration, versus a global average of 6–7%. That gap represents tens of millions of households, farmers, daily-wage workers, and small business owners who have no protection against illness, accident, crop failure, or the death of a breadwinner. For these households, a single hospitalisation or a bad harvest season can wipe out years of savings. Insurance is not a luxury product for them; it is a necessity.

Closing that gap requires the sector to do things it has historically been reluctant to do. It requires going to where the uninsured are, rural districts, informal economy workers, and low-income urban households, with products designed for them, not adapted from products designed for urban salaried professionals. It requires earning trust by settling claims fairly and quickly, rather than finding technical grounds to deny them. And it requires honesty in the sales process, even when honest selling means lower commissions.

IRDAI's Bima Vistar vision of Insurance for All by 2047 is an ambitious goal. Whether it becomes a reality will depend not on regulatory ambition but on execution, on whether the industry and the regulator together can build the distribution infrastructure, the consumer trust, and the product ecosystem that the 1.4 billion people of India deserve.

The potential is real. The need is urgent. The gap can be closed, but only if the sector is honest about what it will take.

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About the Corresponding Author	
	<p><b>Arpan Annjal</b> is an MBA student at the School of Management, Abhilashi University. His academic interests include business administration, marketing management, entrepreneurship, organisational behaviour, and strategic management. He is actively engaged in academic learning, research activities, and professional development in the field of management studies.</p>

