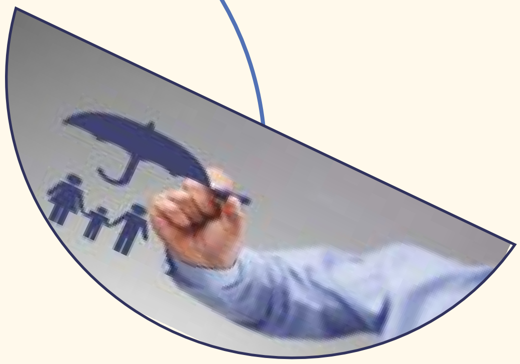
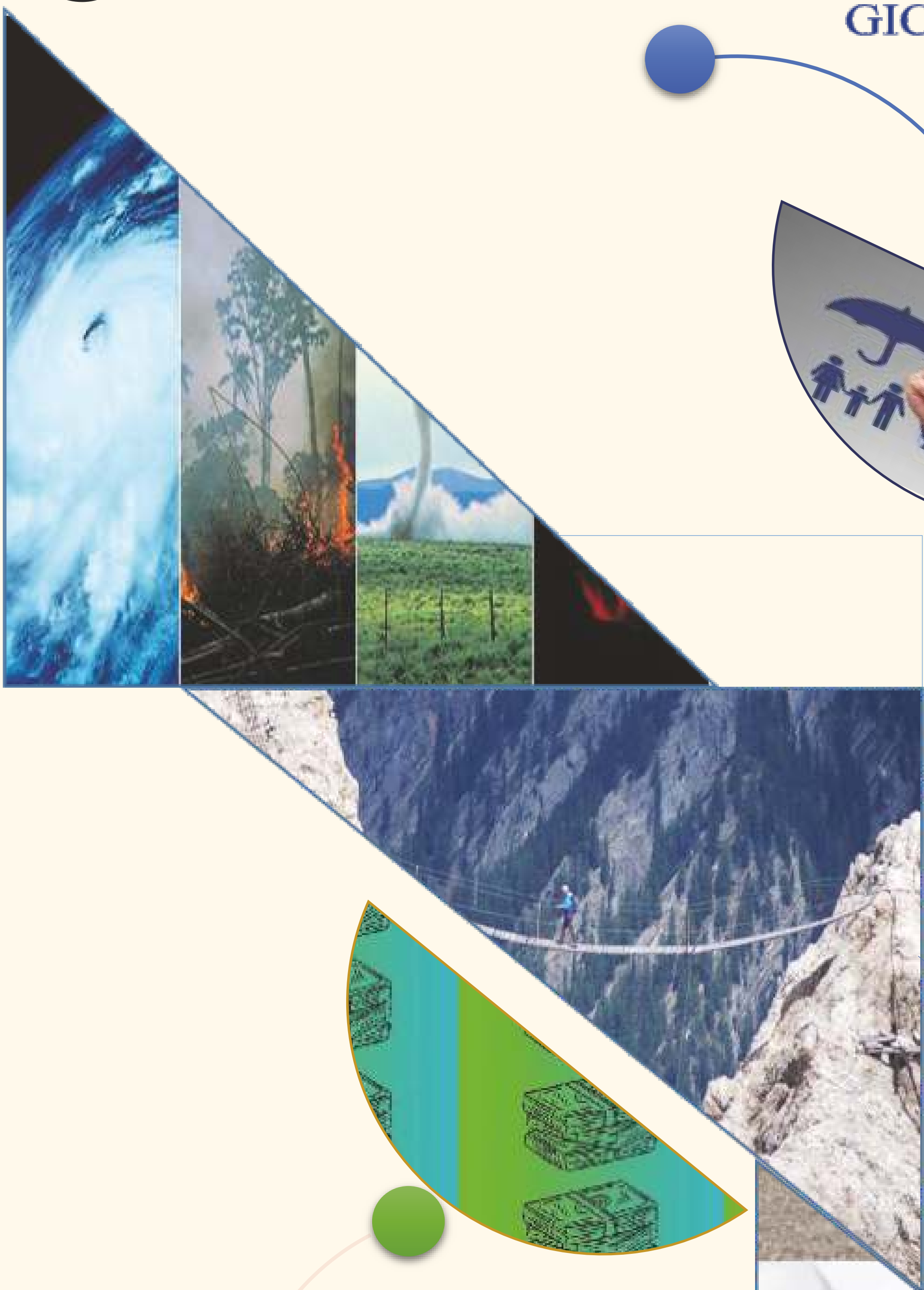
भारतीय बीमा संस्थान
INSURANCE INSTITUTE OF INDIA

General Insurance Corporation of India
Global Reinsurance Solutions

GIC Re

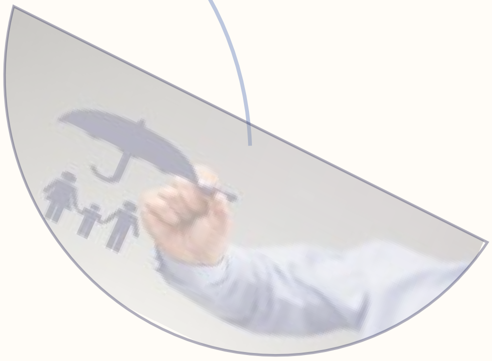


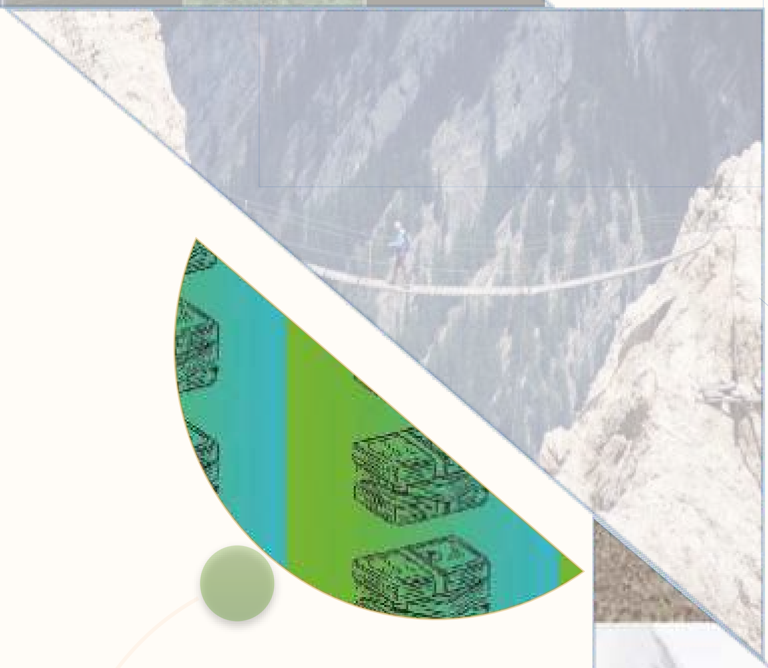


BRIDGING THE PROTECTION GAP IN INSURANCE: THE INDIAN CONTEXT

भारतीय बीमा संस्थान
INSURANCE INSTITUTE OF INDIA

GIC Re





BRIDGING THE PROTECTION GAP IN INSURANCE: THE INDIAN CONTEXT

February 2023

Intellectual Property Rights: Consequent upon the General Insurance Corporation of India[1] (GIC Re) commissioning the services of Insurance Institute of India[2] (III) to undertake a research study on the ***'Bridging the Protection Gap in Insurance'****, the Research Centre of III has prepared and published this Research Study. All intellectual property rights related to the research study vest with the Insurance Institute of India.*

Insurance Institute of India, *C-46, G-Block, Near American Consulate, Bandra-Kurla Complex, Mumbai, 400051 India.* ***Contacts:*** *+91-22-26541154,* ***Mail:*** *research@iii.org.in,* ***Website:*** *www.insuranceinstituteofindia.com*	***General Insurance Corporation of India (GIC Re)****,* *"Suraksha", 170, Jamshedji Tata Road, Churchgate, Mumbai - 400 020 India.* ***Contacts:*** *+91-22-22867000* ***Mail:*** *info@gicofindia.com,* ***Website:*** *www.gicofindia.com*

GIC's GEM_RISK Scheme: This research endeavors of GIC Re and III falls under ***'GIC – III Empowering the Market by Research in Insurance and Sharing Knowledge' (GEM-RISK) Scheme****. The broad purpose of the Scheme is to enhance the knowledge and professionalism of the industry by setting up a regular stream of research to broaden the knowledge base of the Indian insurance industry in general and enhance the academic and professional capabilities of GIC Re's international and domestic cedant companies. GIC Re and Insurance Institute of India (III) have agreed to work together on* ***GEM-RISK Scheme*** *in areas of mutual interest. Insurance Institute of India (III) has undertaken this research study on the 'Bridging the Protection Gap in Insurance' in the above context. It is broadly expected that the insights gathered through this study would help the industry, including insurers, reinsurers, the regulator and the Government in the framing of approaches, strategies, regulations and supervisory mechanisms.*

Caveat: Findings of the Research Study are primarily intended to provide an academic foundation on this subject for the industry. Neither GIC Re nor III would be in any way legally liable to any commercial/ regulatory decision directly or indirectly based on the findings of this report.

Note: This document is published by Insurance Institute of India for private internal circulation, with due rights and permissions. Errors and Omissions excepted.

[1] **The General Insurance Corporation of India (GIC):** GIC was formed by the Government of India (GOI) on 22nd November 1972 in pursuance of Section 9 (1) of General Insurance Business Nationalization Act (GIBNA) under the Companies Act, 1956. GIC was formed to control and operate general insurance business in India though four fully owned subsidiary companies. Consequent to the process of liberalization of the insurance industry that saw the amendment of the Insurance Act of 1938 in 1999 and the enactment of the Insurance Regulatory and Development Authority Act (IRDAI Act) in 1999 GIC was re-notified as India's national reinsurer in November 2000. The General Insurance Business (Nationalization) Amendment Act of 2002 delinked GIC and its four subsidiaries. Post reformation, GIC became the sole Re-insurer in India and was designated as GIC Re. GIC Re has since opened branches in Dubai, Kuala Lumpur, London and Moscow; and expanded its international operations to the SAARC Region, Southeast Asia, Middle East, Africa, Europe and America.GIC Re is ranked among the top 10 largest Reinsurers in the world and 5th largest Aviation Reinsurer in the world (Standard & Poor Ratings). GIC Re has a rating of B++ (Good) from A. M. Best for its financial strength. It has been assigned National Scale 'AAA' Reliability Rating and Global Scale 'iA-' Credit Rating by Russian National Rating Agency (NRA).

[2] **The Insurance Institute of India (III):** III was established in 1955 under the Societies Registration Act, 1860 for imparting insurance education. It conducts examinations leading to certification as Associate Members and Fellow Members of III. It has 91 insurance institutes across the country. III is formally aligned with International Associations/ Organizations like International Association of Insurance Supervisors (IAIS), United Nations Environment Program-Finance Initiative (UNEP-FI), Institute of Global Insurance Education (IGIE), International Insurance Society (IIS). III is represented on the GOI - Finance Ministry's Advisory Committee/ Advisory Groups on Life Insurance and General Insurance. The Secretary General of III acts as Secretary General of the "Federation of State Insurance Organizations of SAARC Countries" (under SAARC Standing Committee/ SAARC Council of Ministers). III works with Government/ Insurance Regulatory and Development Authority of India (IRDAI) as examining body for pre-licensing testing of Insurance Agents, examining body for pre-licensing testing of Insurance Surveyors, training body for pre-licensing of Insurance Brokers, training body for Chief Insurance Executives for pre-licensing of Corporate Agents. III's certifications - Licentiate, Associate, and Fellowship are widely recognized by the IRDAI for various purposes, by the Indian insurance industry and by a good number of overseas insurers as well. III Certifications are recognized by International bodies like Chartered Insurance Institute of U.K. (CII), American Institute for Chartered Property Casualty Underwriters (AICPCU), Life Office Management Association of U.S.A. (LOMA) & Life Insurance Marketing and Research Association (LIMRA) and the Insurance Institute of Canada. College of Insurance (COI), the knowledge arm of III, established in 1966 is recognized for insurance training in India and under the Colombo Plan for SAARC countries. CoI has been training insurance professionals from India, the SAARC Region, Middle East, Africa, and beyond, and is regarded as their alma mater by most of the industry's senior executives. Its training calendar includes programs in various verticals like fire, marine, motor, health, microinsurance etc. as well as functional lines like underwriting, claims, marketing, prevention of fraud etc. While most training programs are open to all in the industry, some are customized for individual insurers, insurance regulators, brokers, health third party administrators etc. COI/III conducts Post Graduate Diploma in Health Insurance (PGDHI) and Insurance Marketing (PGDIM) in collaboration with the Mumbai University. III's Research Centre is recognized by the University of Mumbai for Ph. D. Research. III Research Centre conducts various research studies for the Institute and for reputed national and international entities. III fosters learning and research by supporting budding researchers through research based essay competitions and by extending financial support to researchers. Under its Knowledge Management Initiatives, III reaches out to around 1,00,000 practitioners of insurance and keep them abreast of the latest in the industry every week. Institute news is shared on a monthly basis and the III Journal is published every quarter.

Dedication

Greetings from GIC Re!!

Reinsurers are known for their care and concern for matters concerning the industry. Many of the large players in the reinsurance market have been contributing to the knowledge pool of the industry by conducting research studies on core problems that affect the individual players, the customers of insurance and national level interests. GIC Re has been taking this responsibility quite seriously and combining the technical competencies of insurance and reinsurance experts with the rigor of academic research.

GIC Re has been partnering with the Insurance Institute of India (III) and its training arm, the College of Insurance, over the years, for enhancing the domain knowledge capabilities of its cedant companies across the globe in areas of insurance like liability, property, engineering, oil and energy, project risks, life, takaful and reinsurance.

GIC Re has also been enhancing the knowledge and professionalism of the industry by conducting research in collaboration with III. GIC Re has formulated ***the 'GIC-III Empowering the Market by Research in Insurance and Sharing Knowledge' (GEM-RISK) Scheme*** and entered into a MOU with III for continuing its academic and knowledge enhancement initiatives through a regular stream of research. Under the scheme, we have already published a research study on ***'Challenges in insuring flood prone areas of Mumbai'*** in 2020 and earlier in 2018, another study on the ***'Design and Performance of the Industrial All Risks Policies in India'***. I am happy to announce that the Insurance Institute of India has completed another research study on ***'Bridging the Protection Gap in Insurance'*** as part of the GEM-RISK Scheme.

Individuals and institutions across the world are vulnerable to losses and expenses that may arise due to various reasons ranging from death, disability, disease, damage, destruction or even legal liabilities. The capability of an individual entity to withstand such vulnerable situations depends on the gap between the resources available to him/ her and the resources needed to take care of the resultant losses and expenses. The extent to which one can bear or absorb the economic fallout of such situations varies widely based on multiple factors like one's financial capacity, existing commitments, financial support systems, access to liquid assets and credit worthiness vis-à-vis the costs of the losses and expenses. Given that the insurance mechanism is designed to provide protection from such vulnerabilities, the difference between economic and insured losses is understood as the Protection Gap. The topic ***'Bridging the Protection Gap in Insurance'*** was selected for research in this context.

I am happy dedicate this research report to the Indian Insurance Industry and GIC Re's cedant companies across the globe. I congratulate the Research Team of Insurance Institute of India in bringing out a well written report, using traditional and some innovative approaches to look at Protection Gap interweaving on-the-ground experiences in a forward looking manner.

GIC Re is happy to dedicate this report on the ***'Bridging the Protection Gap in Insurance'*** to the Indian and international insurance community.

Devesh Srivastava
Chairman-cum-Managing Director, GIC Re

Foreword

Insurance Institute of India (III) has been continuously enriching professionalism in the Insurance industry by way of providing education through its certification courses, training programmes, research studies, seminars and publications.

III undertakes research for the industry on various topics of insurance and presents key findings from the quest. I am happy to list out a few representative research studies that III has done in the past:

1. Evaluating the impact of Regulations on Micro-insurance in India (for GIZ)
2. Assessing the design and performance of the Industrial All Risk Policy - for the General Insurance Corporation of India (for GIC Re)
3. Diagnostic Study on Mutuals and Cooperatives in India (for the 5-5-5 Initiative of the International Cooperative and Mutual Insurance Federation)
4. Insurance Requirements of the Indian Logistics and Warehousing Industry and their Customers (for Transport Corporation of India)
5. Property Insurance in New and Existing Housing (for National Housing Bank)
6. Giving Life to Life Insurance (Internal for Life Insurance Companies in India)
7. Challenges in insuring flood prone areas of Mumbai (for GIC Re)

I am thankful to GIC Re for giving III the opportunity for conducting this research on ***"Bridging the Protection Gap in Insurance"*** under the ***'GIC-III Empowering the Market by Research in Insurance and Sharing Knowledge' (GEM-RISK) Scheme***. I would like to express my gratitude to Mr. Devesh Srivastava, CMD, Mr. Deepak Godbole, General Manager (Retd.), Mr. Hitesh Joshi, General Manager, Mrs. Girija Subramanian, General Manager, Mr. Rajesh Khadtare, DGM, and Mrs. Jayashree Prabhu, AGM, GIC Re who had visualized the GEM-RISK Scheme and given III the opportunity to partner in this academic initiative.

The study attempts to quantify the magnitude of the Protection Gap – the gap between the economic losses and the insured losses arising from multiple kinds of risk events, as also to appreciate the uninsured portion of the losses in India, with the support of the available data (though truncated) from various sources, aided by some rational assumptions. The study attempts to provide some insights on the challenges and issues faced in bridging the Protection Gap, as well.

I am happy to acknowledge the contributions of my colleagues, Dr. Shashidharan K. Kutty, Faculty and Dr. George E. Thomas, Professor, COI, III who designed and co-authored the research study. I am grateful to Mr. Muktesh C. Chaturvedi, COO, LIC-HFL Financial Services Limited (Ex-Director, Academics, III), and Prof. Archana Vaze, Assistant Professor, III who took the pains to review the report. I would also compliment Mrs. Akshara Nagpal, Miss Laxmi Hari Joshi and the entire Research Team of III for bringing out a cogent report, despite the adverse situations due to the pandemic as well as multiple experts who contributed their views and opinions for the study.

I am happy to present this research study ***"Bridging the Protection Gap in Insurance"*** to the General Insurance Corporation of India (GIC Re) and the Insurance Industry.

P. Jaipuria
Director (Academics)
Insurance Institute of India

Table of Contents:

Context of Research: Individuals and institutions across the world are vulnerable to losses and expenses that may arise due to various reasons ranging from death, disability, disease, damage, destruction or even liabilities. The extent to which one can bear or absorb the economic fallout of such situations varies widely based on multiple factors like one's financial capacity, existing commitments, financial support systems, access to liquid assets and credit worthiness vis-à-vis the costs of the losses and expenses. One's vulnerability to the situation of loss depends on the gap between the resources that one may have and what one would need to take care of the losses and expenses. Given that the insurance mechanism is designed to provide protection from this vulnerability, the difference between economic and insured losses is understood as the Protection Gap.[3]

The terms 'protection gap' and 'underinsurance' are often used interchangeably, in the case of life and health risks[4]. In the context of property risks, protection gap is defined as the uninsured portion of losses resulting from an event, meaning the difference between total economic and insured losses. However, one should not overlook the fact that the ideal level of risk transfer may not be typically 100%.

While the primary obj ective of insurance protection is to restore the insured to status quo [in a no loss- no gain] situation, in the case of life contingencies, where the principal risks are mortality, morbidity and longevity, protection gaps would address pre-defined risk situations. Here, the purpose of insurance/ pensions is to maintain the current living standards of the insured/ dependents in the event of such a life contingent event.

With the low levels of Insurance Penetration and Insurance Density, there is a large scope for understanding the protection gap and explore mechanisms to reach out to a larger constituency. Again the various interventions by the Government in recent years have opened up the market for complementary initiatives from the insurance industry as well.

Studies conducted by Swiss Re, in an attempt to measure the mortality protection gap in various continents and countries including India have revealed a huge gap of USD 8.5 trillion in 2014. Again it was found that in India, for every USD 100 needed for mortality protection, only USD 7.8 of savings and insurance are in place, leaving a massive protection gap of USD 92.2. It can be argued that while income and consumption needs have grown in India, life insurance has failed to keep pace. However, a serious quest into the changing realities can be expected to shed better light on such surmises and enable insurers in developing appropriate strategies to reach out.

In this context, this study seeks to analyze and address the challenges and issues faced in bridging the gap starting with various approaches to provide proxy measures of the growth and spread of insurance. It would examine the roles of the State, the insurers, the insurance marketplace with its multiple players, customer communities, niche market forums and consumer representatives. The study would examine the factors that impinge on the growth of Insurance, significant and indicative interventions of the past to find lessons for future growth. This research hopes to bring out insights that may lead to relevant action agendas for placing life, health and pensions in a higher trajectory of growth and enabling them to achieve greater relevance.

---

[3] Protection Gap highlights the significant burden that society is carrying when a disaster strikes. It is *"the difference between economic and insured losses"* http://www.air-worldwide.com/Blog/Why-Does-the-Protection-Gap-Exist. *"The great divide between economic losses and insured losses" The Protection Gap - Why closing it is critical to the industry's future,* XL Catlin - http://xlcatlin.com/fast-fast-forward/articles/xl-catlin-protection-gap-special-report - The terms 'protection gap' and 'underinsurance' are often used interchangeably, especially in life and health risks. Used in the context of property risk, there is a subtle difference in meaning when assessing the (in)adequacy of insurance cover. The property protection gap is defined as the uninsured portion of losses resulting from an event, meaning the difference between total economic and insured losses.

[4] Underinsurance of property risks: Closing the Gap, Sigma 5/2015, Swiss Re http://www.swissre.com/reinsurance/insurers/sigma_52015_Underinsurance_in_property_risk_closing _the_ gap.html