



Changes in Life Insurance Industry in India

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Abstract

After liberalization the life insurance industry of India witnessed a vital changes and it is being forced to face a lot of vigorous competition from many domestic as well as international private insurance players. In life insurance business, India is ranked 11th among the 88 countries, for which data is published by Swiss Re. India's share in global life insurance market was 2.00 per cent during 2013. The study is based on secondary data. The data used in the Privatization paper covers the period from 2001-02 to 2010-13..The growth was more consistent for LIC as compared to private life insurers in terms of Number of Policies, First premium, total premium and Market share is compared.

Key words: Liberalization, Globalization and Market share, Premium

Introduction

The growing complexity of life, trade and commerce, individuals as well as business firms are turning to insurance and manage various risks. A person can avail this protection by paying premium to an insurance company. Insurance is a mechanism which provides financial protection against a loss arising out of an uncertain event. Every individual in this world is subject to unforeseen and uncalled for hazards or dangers, which may make him and his family vulnerable. Thus, insurance helps a person not only to survive at this point of time but also to recover his loss and continue his life normally, which would otherwise be absurd. Thus, it is necessary to have complete knowledge about the meaning of insurance and the purpose it serves to individual or an organization.

Importance of the Study

The insurance industry is one of the fastest growing industries in the country and offers unlimited growth potential. The LIC was the only company in life insurance business in India from 1956 to 1999. During the periods the LIC facing

numerous problems like low performance, poor customer services, ineffective marketing, low insurance penetration were some of the problem. In view to overcome these problems and improved market penetration; liberalization of Indian insurance industry was announced in an IRDA reform 1999. Hence, the researcher has taken up the present study to analysis the present condition of life insurance and benefits to the industry after opening up of the sector to the private insurers.

Objectives of the Study

The objectives of the present study are;

1. To compare the business performance of public and private life insurance companies.
2. For this purpose, various indicators like growth of life insurance business in number of Policies, First year premium income, total Life insurance premium have been analyzed.



Research Methodology

The study is based upon secondary data. The secondary data has been collected from annual reports of IRDA, and journal Life insurance today. Besides, a few websites have also been consulted. The data covers the period from 2001-02 to 2012-13. For the analysis of data, statistical tools like percentages, ratios, growth rates and coefficient of variation have been used.

Growth of Number of Policies

The number of insurance policy is an important indicator of growth and performance of the insurance companies. It is a pointer towards the spread of message of insurance among those people who have never availed of the benefits of life insurance as well as the existing policyholders. The table 4 presents the complete picture of the performance of new business in terms of number of policies of both LIC and Private life insurers in a period of ten years from 2001-2002 to 2010-11. During 2013-14, life insurers issued 408.72 lakh new policies, out of which LIC issued 345.12 lakh policies (84.44 per cent of total policies issued) and the private life insurers issued 63.60 lakh policies (15.56 per cent). While LIC registered a decline of 6.17 per cent (2.88 per cent growth in 2012-13) in the number of new policies issued against the previous year, the private sector insurers continued the previous years' experience of significant decline and reported a dip of 14.11 per cent (12.88 per cent decline in 2012-13) in the number of new policies issued. Overall, the industry witnessed a 7.50 per cent decline (0.01 per cent decline in 2012-13) in the number of new policies issued.

Growth of First Year Premium Income

First year premium income is main indicators of the performance of the insurance business. The first year premium income of LIC and Private Players. Life insurance industry recorded a premium income of `3,14,283 crore during 2013-14 as against `2,87,202 crore in the previous financial year, registering a growth of 9.43 per cent (0.05 per cent growth in previous year). While private sector insurers posted 1.35 per cent decline (6.87 per cent decline in previous year) in their premium income, LIC recorded 13.48 per cent growth (2.92 per cent growth in previous year) I.3.4 While renewal premium accounted for 61.72 per cent (62.62 per cent in 2012-13) of the total premium received by the life insurers, first year premium contributed the remaining 38.28 per cent (37.38 per cent in 2012-13). During 2013-14, the growth in renewal premium was 7.85 per cent (3.88 per cent in 2012-13). First year premium registered a growth of 12.07 per cent in comparison to a decline of 5.78 per cent during 2012-13 Further bifurcation of the first year premium indicates that single premium income received by the life insurers recorded growth of 22.50 per cent during 2013-14 (6.78 per cent growth in 2012-13). Single premium products continue to play a major role for LIC as they contributed 24.86 per cent of LIC's total premium income (22.17 per cent in 2012-13). In comparison, the contribution of single premium income in total premium income during 2013-14 was 11.29 per cent for private insurance companies (11.37 per cent in 2012-13).

The regular premium registered a growth of 1.03 per cent in 2013-14, as against 16.21 per cent decline in 2012-13. The private insurers witnessed decline of



4.83 per cent (0.94 per cent decline in 2012-13), while LIC registered a growth of 5.25 per cent in the regular premium (24.58 per cent decline in 2012-13). Unit-linked products (ULIPs) witnessed 23.02 per cent decline in premium income from `48,776 crore in 2012-13 to `37,547 crore in 2013-14. On the other hand, the growth in premium income of traditional products was at 16.07 per cent, with premium income increasing to `2,76,736 crore as against `2,38,427 crore in 2012-13. Accordingly, the share of unit-linked products in total premium declined considerably to 11.95 per cent in 2013-14 as against 16.98 per cent in 2012-13.

Indian Life Insurance in the Global Scenario

Globally, the share of life insurance business in total premium was 56.2 per cent. However, the share of life insurance business for India was very high at 79.6 per cent while the share of non-life insurance business was small at 20.4 per cent. In life insurance business, India is ranked 11th among the 88 countries, for which data is Published by Swiss Re. India's share in global life insurance market was 2.00 per cent during 2013. However, during 2013, the life insurance premium in India declined by 0.5 per cent (Inflation adjusted) when global life insurance premium increased by 0.7 per cent. The Indian non-life insurance sector witnessed a growth of 4.1 per cent (inflation adjusted) during 2013. During the same period, the growth in global non-life premium was 2.3 per cent. However, the share of Indian non-life insurance premium in global non-life insurance premium was small at 0.66 per cent and India ranks 21st in global non-life insurance markets.

Life Insurance Corporation of India

On 1st of September 1956, The Life Insurance Corporation of India (LIC) embarked upon its momentous journey in true spirit of serving the people and nation as a whole. Since then it has spearheaded the financial and infrastructure development of the nation. LIC has played a significant role in spreading life insurance among the masses and mobilization of people's money for people's welfare. Today, the LIC of India providing services to its services its customers through 8 Zonal offices, 113 Divisional Offices, 2048 Branches, 1202 Satellite Offices, more than 1.19 Lakhs employees and 12.78 Lakhs agents.

There has been a substantial rise in insurance coverage, with both the number of life and health insurance policies increasing many times over Insurance industry occupies a prominent place among the various financial services that operating the world, huge untapped population provides unlimited scope to life insurance companies for market expansion and penetration. There was a remarkable improvement in the Indian insurance industry soon after the Indian economic reform 1991 which is characterized by three important elements i.e. Liberalization, Privatization, and Globalization (LPG). In the post liberalization period, the life insurance industry in India witnessed a remarkable growth and it is being forced to face a lot of healthy competition from many domestic as well as international private insurance players. Even after the entry of private insurers for almost a decade now, LIC continues to be the frontrunner in the industry in terms of market share.



Life Insurance Penetration and Density in India

Table-1: Density and Penetration of Life Insurance Business in India

Year	Density(USD)	Penetration (percentage)
2001	9.1	2.15
2002	11.7	2.59
2003	12.9	2.26
2004	15.7	2.53
2005	18.3	2.53
2006	33.2	4.10
2007	40.4	4.00
2008	41.2	4.00
2009	47.7	4.60
2010	55.7	4.40
2011	49.0	3.40
2012	42.7	3.17
2013	41.0	3.10

*Insurance density is measured as ratio of premium (In US Dollar) to total population

*Insurance penetration is measured as ratio of premium (in US Dollars) to GDP (in US Dollars). Source: IRDA annual reports

Table 1 exhibit the life insurance density and penetration in India from 2001 to 2013. The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). During the first decade of insurance sector liberalization, the sector has reported consistent increase in insurance penetration from 2.71 per cent in 2001 to 5.20 per cent in 2009. However, since then, the level of penetration has been declining reaching 3.9 per cent in 2013. A similar trend was observed in the level of insurance density which reached the

maximum of USD 64.4 in the year 2010 from the level of USD 11.5 in 2001. During the year under review 2013, the insurance density was USD 52.0.

The insurance density of life insurance business had gone up from USD 9.1 in 2001 to reach the peak at USD 55.7 in 2010. During 2013, the level of life insurance density was only USD 41. Similarly, the life insurance penetration surged from 2.15 per cent in 2001 to 4.60 per cent in 2009. Since then, it has exhibited a declining trend reaching 3.1 per cent in 2013. Over the last 10 years, the penetration of non-life insurance sector in the country remained steady in the range of 0.5-0.8 per cent. However, its density has gone up from USD 2.4 in 2001 to USD 11.0 in 2013.



Registered Insurers in India

Table-2: Registered insurers in India (As on 30th September, 2014)

Type of insurer	Public Sector	Private Sector	Total
Life Insurance	1	23	24
General insurance	6*	22	28
Reinsurance	1	0	1
Total	8	45	53

*Includes specialized insurance companies-ECGC and AIC

Source IRDA annual reports

After privatization, insurance industry has seen significant growth. Due to low penetration and huge potential, many foreign and domestic players have entered the sector. Moreover, several reforms and policy measures have provided a favorable environment for insurance companies to flourish in the country. The insurance sector in India is primarily divided into life and non-life, apart from a very small segment comprising re-insurance. Both the life and non-life insurance segments, which were nationalized in the 1950s and 1960s, respectively, witnessed an across the board liberalization process in 2000. After the reforms, the number of players has increased from one in life insurance and four in non-life.

At the end of March 2014, there are 53 insurance companies operating in India; of which 24 are in the life insurance business and 28 are in non-life insurance business. In addition, GIC is the sole national reinsurer. Of the 53 companies presently in operation, eight are in the public sector - two are specialized insurers, namely ECGC and AIC, one in life insurance namely LIC, four in non-

life insurance and one in reinsurance. The remaining forty five companies are in the private sector.

Expansion of Offices

The decreasing trend of number of life offices (which had continued until 2012-13) had reverted in 2013-14. The number of life offices as at 31.3.2014 had increased to 11032 from 10285 of the previous year. The private insurers had closed 732 offices and opened 166 in 2013-14; therefore there was a net reduction of 566 offices during the financial year for private sector. On the other hand, the public sector LIC had established 1313 new offices and closed none; this resulted in a net increase of 1313 offices in the public sector. It is observed that majority of offices of life insurers are located in towns which are not listed in HRA classifications of the Ministry of Finance. Around 67 per cent of life insurance offices are located in these small towns. This fact remains similar for both private sector (57.9 per cent of the offices in small towns) and public sector life insurers (79.6 per cent of the office in small towns).



Growth of Total Life Insurance Premium Income

Table-3 : Total Life Insurance Premium (Crores)

Insurer	2000-01	2011-12	2012-13
Aegon religare		457.32	430.50
Aviva		2415.87	2140.67
Bajaj allianz		7483.80	6892.70
Bharti axa		774.16	744.52
Birla unlife	0.32	5885.36	5216.30
Canara hsbc		1861.08	1912.15
DLF pramerica		167.01	236.79
Edelweiss tokio		10.88	54.83
Future generali		779.58	678.29
HDFC standard	0.00	10202.40	11322.68
ICICI prudential	5.97	14021.58	13538.24
IDBI federal		736.70	804.68
India first		1297.93	1690.08
ING life		1679.98	1742.36
Kotak mahindra		2937.43	2777.78
Max life	0.16	6390.53	6638.70
Pnb metlife		2677.50	2429.52
Reliance		5497.62	4045.39
Sahara		225.95	205.38
SBI life		13133.74	10450.03
Shriram life		644.16	618.07
Star union Dai-Ichi		1271.95	1068.80
Tata Asia		3630.30	2760.43
Private sector	6.45	84182.83	78398.91
		(-4.52)	(-6.87)
LIC	34892.02	202889.28	208803.58
		(-0.29)	(2.92)
Grand Total	34898.47	287072.11	287202.49
		(-1.57)	(0.05)

Source: Annual Report IRDA 2012-13.

Total premium income is the overall revenue of the life insurers. The total premium income includes the first year premium, regular premium, renewal premium and single premium of Insurance business. Total premium income is the major source of income of life insurance Industry. The total premium income of LIC and the private players during 2001-2013. The total life insurance premium slightly decreased by

-1.57 from 2010-2011 to 2011-2012 but there is a slight increment in 2012-2013 by 0.05 growth.

Conclusion

The main aim of the privatization of life insurance business is to create the awareness of life insurance business among the rural and urban people and create the employment opportunity to the society. As a result of



the study, the private life insurer has fulfilling the objectives of privatization of insurance industry in India. At the same time, the LIC of India has facing a stiff competition against the private insurer. The LIC of India has stand in the safety position, according to the government guarantee for the policyholder's money. The LIC of India has strong human resources and other infrastructure facilities compare to the private insurer. The LIC of India should attract new policyholders and retain the existing policyholders for their survival.

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