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Growth and performance of private sector life insurance companies and Life Insurance Corporation of India

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Abstract: A very important aspect of privatization of insurance business is International Insurance market. For over several decades now privatization of Insurance business has been growing now much faster than world Insurance trade. In the post-liberalization period, the life insurance industry of India witnessed a marvelous growth and touched its historical height. At the same time, the elaborate data analysis reveals the, fact that almost all the private limited life insurance companies have shown a decrease or negative net profit and working fund management positions and in turn their operating expenses have significantly raised.
Key words: liberalization, Insurance market, privatization

The subject matter of insurance is the life span of human being. "Life insurance commands the greatest popularity and importance in the insurance world because the life is the most important property of the society or an individual"[1]. "The basic premise of insurance is to protect the few against the heavy financial impact of anticipated misfortune by spreading the loss among the many who are exposed to risk of a similar nature"[2]. Insurance is an effective financial instrument wherein the customers pay a smaller amount to the insurer in the form of premium for meeting a larger uncertain loss that would exist if they have not taken insurance. Insurance has neither prevented losses nor reduced the costs of losses. But, the principle of insurance states the loss of few is shared by many. The Oxford English Dictionary defined insurance as "the act of securing the payment of a sum of money in the event of loss or damage to property, life, etc. by payment of a premium or premiums". The term insurance may also be defined as "a social device providing financial compensation for the consequences of adversities, the payments being made from the accumulated contributions of all parties participating in the arrangement. The essence of insurance thus, is collective bearing of risks as it involves pooling of risk"[3]. It is also a social instrument or mechanism in which economic security and social protection are provided to people and also to corporates. Insurance is a mix of promise and service. It is a promise to be made to the insured to fulfill a stated obligation in future as per the conditions laid down in the insurance policy. It is also a service rendered by the insurer when the need arises to the insured. Hence, the survival of life insurance industry depends mostly on utmost good faith of the insured.

Privatization of insurance business

A very important aspect of privatization of insurance business is International Insurance market. For over several decades now privatization of Insurance business has been growing now much faster than world Insurance trade. In accordance with the privatization and liberalization process the banking and insurance system also had to undergo liberalization. The Narasimham committee report has to be considered in this context. The report recommended for the reorganization of the public sector banks solving the problems of bad debts and the freedom of operation of foreign banks. It was also recommended to; setup a supervisory board to monitor the functioning of the financial institutions including insurance companies while they should be given autonomy. Providing greater freedom of operation of foreign banks and insurance companies was an important recommendation, which was supposed to facilitate foreign investment in India. This strategy has been successfully implemented with foreign banks and insurance companies operating in India profitably.

Life Insurance Corporation of India was formed in 1956 to take over the life insurance business in the country; prior to this there was number of private companies transacting life business. In 1970 there were 107 companies operating in General insurance business in India, of which 106 were Private Indian and foreign companies and one was Oriental Insurance co Ltd, a subsidiary of LIC. In 1971 the Government nationalized insurance business and passed a Special Act in 1972 viz. General Insurance Business (Nationalized Act) 1972.

As part of the privatization and liberalization announced in 1991 industrial policy measures were initiated by the government to liberalize the MRTP and FERA regulations. Important changes were also made in the Foreign Exchange Regulation Act (FERA) OF 1973 in order to encourage foreign investment in India. FERA companies are allowed to have foreign equity holdings up to 51 percent in high priority areas including insurance companies.

In order to facilitate liberalization and to establish a positive report with World Bank in the context of grave foreign exchange crisis, insurance, banking and financial sector reforms were also initiated. Regulations in India's financial sector and directions to banks and insurance for greater discipline were issued. Private sector insurance companies including foreign insurance were also encouraged to operate in India. Permission was also granted by the RBI of India to set up new private bank and insurance and foreign financial institutions were allowed to acquire up to 20% in the equity of private sector banks and insurance companies while NRIs were permitted up to 40% stake.

Meanwhile, certain principles and policy parameters were communicated by the world bank to guide the decisions on the financial sector adjustment loan (FSAL) the world bank also expected on the of the government on the recommendations of Narasimham Committee and Malhothra Committee about liberalisation and privatisation of the financial and insurance sector before the completion of the Uruguay Round of GATT Negotiations. Restructuring of the bank and insurance management systems, giving greater operational autonomy to nationalised financial institutions and private banks including foreign banks and financial institutions, is in consonance with interest of the World Bank. A market based interest rate regime and a reduction of rate would also be liked by the World Bank. The Marrakeh declaration includes an agreement on establishment of the preparatory committee for the World Trade Organisation, acceptance of the impact on organizational and financial consequences following from the setting up of the WTO. GATT had replaced the WTO in 1995. The GATT agreement enables the member countries to have access to each other market. There will be rules governing annual trade in services like banking, insurance and travel as well as the movement of labour.

The financial sector was to be opened up so that foreign investors would have an incentive to pump in adequate capital without fear. Pertinently, banking, insurance, securities and financial sector were made accessible to foreign banks, foreign insurance companies and security firms sending a strong positive signal to foreign investors that India was opening up its economy for their investments in all sectors. The government thus introduced reforms to the financial and insurance sectors, allowing privatisation of insurance business with foreign collaboration to freely operate in India.

Objectives of the Study: The major focus of the present study is on the following objectives

- To compare and analyze the growth and performance of private sector life insurance companies and Life Insurance Corporation of India.

Methodology of the study

Along with LIC, three private sector life insurance companies in India from 2001-02 to 2015-16 were selected for the study. These are selected based on the leading position in the country and many are well known to public locally. The companies selected for the research work are as follows:

(a) Public Sector: Life Insurance Corporation of India

(b) Private Sector:

1. ICICI Prudential Life Insurance Company Limited

2. HDFC Standard Life Insurance Company Limited

3. SBI Life Insurance Company Limited

Tools and methods of data analysis: In the analysis of the data, various statistical tools like percentage, mean, average annual compound Growth rates (ACGR), Ratio method and linear trend are used at appropriate places in this study. Description on the statistical tools has also presented at concerned page.

ii) Compound Growth Rate:

It works out change for a given period on the basis of the base year and the end year values, i. e,

$$g = [\left\{\frac{K_1}{K_0}\right\}^{1/t} - 1] \times 100$$

Where

K_1 and K_0 represent the values of variables at the end and basic year respectively,

't' is the time period between the base year and end year, and

'g' represents the compound growth rate.

RESULTS OF THE STUDY:

New Business Premium

New business premium is the premium acquired from new policies for a particular year. A premium is a regular periodic payment to be made by the policyholder to the insurance provider. The premium earned from the new contracts in a given financial year is referred to as the new business premium for an insurance company. It incorporates single premium for that year, the first year premium on regular premium policies written in that year and from those written in previous years.

The new business premium accumulated by Public (LIC) and the selected Private Life insurers in India during the period 2001-02 to 2013-14 is depicted in the Table 1. From the table, we read that the post reform decade of Indian life insurance has been witnessed a growth in the yearly new business registered in the industry by more than six times, while more than three and a half times growth is achieved under the Public domain. Since private insurers had to start their operations with effect from the dawn of 2001-02 can be considered as the effective starting point of private life business.

In the year 2000-01, LIC had a first year premium of Rs. 9700.98 crore, the first year premium value has increased to Rs. 90808.79 crore and the average premium is Rs. 49214.22 Cr with an annual growth of 16.97 per cent and co-variation is 60.32 per cent during the study.

Meanwhile, HDFC life insurance had the first year premium of Rs 0.002 cr in the beginning of the year 2000-01 and it increased up to Rs. 4038.93 Cr at the end of the year 2013-14 with a sharp increase in annual growth by 276.98 per cent. The average mean of HDFC was Rs. 2038.06 Cr with a co-variation of 84.06 per cent for the period of 2000-01 to 2013-14.

In case of ICICI life insurance the first year premium had by Rs. 5.97 Cr in the year 2000-01 and it sharply rose to Rs. 3759.59 Cr that increased to 24 times (index value) in 2013-14 and the average annual growth of this company was 157.01. And its average mean was Rs. 3760.37 Cr with a co-variation of 76.85 per cent respectively.

SBI life has also occupied a significant role in this regard. The first year premium had by Rs. 1469 Cr in the year 2000-01 and it sharply rose to Rs. 506548 Cr that increased to 24 times (index value) in 2013-14 and the average annual growth of this company was 89.90 And its average mean was Rs. 326731.43 Cr with a co-variation of 150.53 per cent respectively.

It is concluded from the table that the growth of first year premium of LIC during the study period was registered by 16.97 per cent but it is higher in case of private sector companies as evidence that the growth of first year premium has varied to 276.98 per cent in HDFC from 150.53 per cent in SBI life. However, at the same time, the coefficient of variation is highly varied from 76.85 % to 89.90 % for the private sector with compared to LIC (60.32%) during the study.

Table 1: First year life insurance premium / New Business Premium of the selected insurance companies (Rs Cr)

Year	Insurer							
	LIC		**HDFC**		**ICICI**		SBI LIFE	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index
2000-01	9700.98	100	0.002	100	5.97	100	0	0
2001-02	19588.77	202	30.78	1539000	113.33	1898	1469	100
2002-03	15976.76	165	129.31	6465500	374.11	6266	7188	489
2003-04	17347.62	179	209.33	10466500	750.84	12577	20705	1409
2004-05	20653.06	213	486.15	24307500	1584.34	26538	48485	3301
2005-06	28515.87	294	1042.65	52132500	2602.5	43593	82782	5635
2006-07	56223.56	580	1648.85	82442500	5162.13	86468	256384	17453
2007-08	59996.57	618	2685.37	134268500	8034.75	134585	479282	32626
2008-09	53179.08	548	2651.11	132555500	6811.83	114101	538664	36669
2009-10	71521.9	737	3257.51	162875500	6333.92	106096	704074	47929
2010-11	87012.35	897	4059.33	202966500	7862.14	131694	757239	51548
2011-12	81862.25	844	3857.47	192873500	4441.09	74390	653132	44461
2012-13	76611.5	790	4436.07	221803500	4808.62	80546	518288	35282
2013-14	90808.79	936	4038.93	201946500	3759.59	62975	506548	34483
2014-15	78507.72	809	5492.10	274605000	5332.13	89315	5529.16	376
2015-16	97891.51	1009	6487.22	324361000	6765.75	113329	7106.58	484
2016-17	124583.31	1284	8696.36	434818000	7863.30	131714	10143.86	691
Mean	49214.22		2038.06		3760.37		326731.43	
SD	29687.33		1713.13		2889.67		293738.10	
CV(%)	60.32		84.06		76.85		89.90	
CGR	16.97		276.98		157.01		150.53	

Source: Annual reports of concerned year of company and IRDA

As per the Table 2, it is further observed that during the study period the first year life insurance premium to the total, LIC occupied 98.65 per cent in 2013-14 to 60.89 in 2007-08. It was 0.17 per cent in 2001-02 to 4.13 per cent in 2012-13 in case of HDFC. It was 0.15 per cent in 2001-02 to 8.57 Per cent in 2007-08 in case of ICICI. In case of SBI Life, it was 0.07 per cent in 2001-02 to 6.17Per cent in 2008-09 respectively.

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Table 2: percentage share of first year life insurance premium

Year	LIC	HDFC	ICICI	SBI Life
2001-02	98.65	0.17	0.57	0.07
2002-03	94.30	0.76	2.15	0.42
2003-04	87.67	1.06	3.79	1.05
2004-05	78.78	1.85	6.04	1.85
2005-06	73.52	2.69	6.71	0.21
2006-07	74.32	2.18	6.82	3.39
2007-08	64.02	2.86	8.57	5.11
2008-09	60.89	3.03	7.80	6.17
2009-10	65.08	2.96	5.76	6.41
2010-11	68.84	3.21	6.22	6.00
2011-12	71.83	3.38	3.90	5.73
2012-13	71.36	4.13	4.48	4.83
2013-14	75.47	3.37	3.12	4.21
2014-15	69.27	4.85	4.70	4.88
2015-16	70.54	4.67	4.88	5.12
2016-17	71.11	4.96	4.49	5.79

Source: Annual reports of concerned year of company

Total/ Gross Premium

As said earlier, Premium collected by the insurance companies from various policyholders is again invested and the income earned on the same helps the insurance company to bear various expenses incurred and benefits given to policyholders. Thus, the premium income forms primary sources of income for any insurance company. Table 3 depicts the gross premium earning of the life insurance companies during the study period 2000-01 to 2013-14.

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Table 3. Total/gross Premium of selected life insurance companies of India (Rs. crores)

S. No	Year	LIC	Index	HDFC	Index	ICICI	Index	SBI	Index
1	2000-01	34892.02	100	0.002	100	5.97	100	0	0
2	2001-02	49821.91	143	33.46	1673000	116.38	1949	14.69	100
3	2002-03	54628.49	157	148.83	7441500	417.62	6995	72.39	493
4	2003-04	63533.43	182	297.76	14888000	989.28	16571	227.67	1550
5	2004-05	75127.29	215	686.63	34331500	2363.82	39595	601.18	4092
6	2005-06	90792.22	260	1569.91	78495500	4261.05	71374	1072.32	7300
7	2006-07	127822.8	366	2855.87	142793500	7912.99	132546	2928.49	19935
8	2007-08	14978.99	43	4858.56	242928000	13561.06	227153	5622.14	38272
9	2008-09	157288.04	451	5564.69	278234500	15356.22	257223	7212.1	49095
10	2009-10	186077.31	533	7005.10	350255000	16528.75	276863	10104.03	68782
11	2010-11	203473.40	583	9004.17	450208500	17880.63	299508	12945.29	88123
12	2011-12	202889.28	581	10202.40	510120000	14021.58	234867	13133.74	89406
13	2012-13	208803.58	598	11322.68	566134000	13538.24	226771	10450.03	71137
14	2013-14	236942.30	679	12062.90	603145000	12428.65	208185	10738.6	73101
	2014-15	239667.65	687	12987.40	649370000	12978.21	217390	12987.20	88408
	2015-16	266444.21	764	14352.04	717602000	14527.25	243338	16451.25	111989
	2016-17	300487.36	861	22354.00	1117700000	22354.00	374439	21015.13	143057
	Mean	121933.65		4686.64		8527.30		5365.91	
	SD	75799.22		4525.34		6886.50		5242.97	
	CV (%)	62.16		96.56		80.76		97.71	
	CGR	14.56		33.52		70.66		58.43	

Source: Annual reports of concerned year of company and IRDA

The table reveals the Gross premium collected by the select Life Insurance Companies in India. In the year 2000-01, LIC had a gross premium of Rs. 34892.02 Cr and it rose to Rs. 236942.30 Cr at the end of the year 2013-14. The annual growth of this company was 14.56 per cent and its mean was registered as Rs. 121933.65 Cr. The co-variation is recorded by 62.16 per cent.

In the year 2000-01, HDFC had a gross premium of Rs. 0.002 Cr and it raised to Rs. 12062.90 Cr at the end of the year 2013-14. The annual growth of this company was 33.52 per cent and its mean was registered as Rs. 4686.64 Cr. The co-variation is recorded by 96.56 per cent.

The gross premium of ICICI life insurance was Rs. 5.97 Cr growth premium in 2000-01; it sharply rose from Rs. 12428.65 Cr in 2013-14. The average annual growth of this company was 70.66. The average mean was Rs. 8527.30 Cr and co-variation is recorded by 80.76 per cent.

In case of SBI life insurance it was Rs. 14.69 Cr in the beginning of the year 2002-03 and it increased to Rs. 10738.6 Cr at the end of the year 2013-14 with an annual growth of 58.43 per cent. The average premium collected by SBI was Rs. 5365.91 Cr. The co-variation is recorded by 97.71 per cent.

It is concluded from the table that the gross premium of LIC during the study period was registered by 14.56 per cent of growth but it is higher in case of private sector companies as evidence that the growth has varied from 33.52 per cent in HDFC insurance to 70.66 per cent in ICICI. However, the coefficient of variation is highly recorded by 80.76 % to 97.71 % for the private sector with compared to LIC (62.16 %) during the study.

Conclusion

From the elaborate data analysis it has been inferred that LIC continues to be the dominant life insurer even in the liberalized scenario of Indian insurance and is moving fast on a new growth trajectory surpassing its own past records. It has also been inferred that private insurance companies are expanding their business and giving tough competition to LIC though there is a continuous downfall in the market share of LIC after privatization and new business is increasingly going towards private insurance companies, LIC is still holding the dominant position and is the most trusted brand among the people. In the post-liberalization period, the life insurance industry of India witnessed a marvelous growth and touched its historical height. At the same time, the elaborate data analysis reveals the, fact that almost all the private limited life insurance companies have shown a decrease or negative net profit and working fund management positions and in turn their operating expenses have significantly raised. These have been reasoned because of increase in commission, claim and other expenses.

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