

A STUDY ON PRIVATE LIFE INSURANCE SECTOR IN INDIA: PAST, PRESENT AND FUTURE

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ABSTRACT

From the time when the privatization of the insurance sector in India has taken place, the insurance business has been seen the beginning of numerous private concerns mainly joint ventures between large foreign insurance companies and Indian diversified conglomerate companies. The insurance industry in India has recorded significant growth with increasing awareness for life insurance need after the liberalization. As per the IRDA Annual report 2017-18, 68 insurance companies are in force in India comprising 24 life insurance companies, 27 general insurance companies, 6 standalone health insurers who exclusively do health insurance business and 11 are re-insurers including foreign re-insurers branches and Lloyd's India till March 2018. There is massive competition among insurance companies on basis of price and services to attract the customers. The industry is rigorously engaged in innovating products, strong distribution channels, public relation and promotional campaigns by the insurance companies. The opening up of sector to the private players witnessed the introduction of a number of new products and possibly the Indian insurance market is one of the fastest growing markets because of some favourable factors viz. Emerging socio-economic changes, increased wealth, education and awareness of insurance needs. This paper is aimed to examine the status of private life insurance sector of India in present scenario as well as estimating future trend of insurance business of private life insurance sector in competitive market.

KEYWORDS: Life Insurance, Liberalization, Joint Venture, Re-Insurers, Socio-Economic Changes.

Introduction

Competition is the backbone of an economy as productivity is being pushed up by competitive environment. Plenty of opportunities are available now after opening up of insurance sector for competition to both existing as well as new insurance companies to enter into unexploited areas, sectors and untapped section of population as insurance density and penetration are lesser in present scenario. Both indices being at very low level in the country, even compared to the countries with same level of economic development and per capita income, are indicative of the vast potential of the growth of this sector in future. The Indian life insurance market along with general insurance market is full of potential. The appropriate strategies should be framed to tap the market in more efficient way.

Objectives

- To analyze the performance and growth of private insurance companies at present.
- To analyze the future trend of business of private insurance sector of India.

Limitations

- The data is secondary in nature.
- As the data is taken from the IRDA report and companies websites so analysis is based on the rendered information from there.

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Research Methodology

Basically secondary data is used for studies which consisted of published annual reports of the private insurance companies of India, website of private insurance companies in India, website of IRDAI, journals, magazines and reference books. Figures are taken from annual reports of IRDAI and are compiled, tabulated and analyzed.

Review of Literature

Various studies have been made on insurance sector at national and international level. Following are some literatures related to the study. The objective behind my research is to link the past findings with present scenario and to estimate future trend of private sector of life insurance segment.

N. Rangachary (1999), former chairman of IRDA, focused on the reasons for privatization of the insurance industry. As per author, one of the predominant reasons for liberalizing the insurance industry is to create a more contestable market in the insurance that will foster the development of an efficient and forward looking industry. And the deregulation of insurance will lead to a greater range of innovative and customer oriented products. According to author, another advantage of opening up of the insurance sector is that the foreign participation in locally owned direct insurers will enable local players to form alliances with foreign partners and benefit from transfer of technical know-how and increased financial strength.

A. Vijayakumar (2001) mentioned in his paper that enhancement in competition; innovation and product variations will take place after privatisation in insurance sector. However a variety of issues including demand for retirement plan, separation of banking and insurance sector, role of Information Technology, potential utilize of postal network for selling insurance plans and above all, the role of Insurance Regulatory Authority should be measured in this circumstance.

According to him, per capita insurance premium in developed countries is very high, it is quite low in India. His study also exposes that, though the insurance industry has been growing between 15 and 20 per cent, it is far behind globally due to the following reasons:

- Insurance companies create products and go out to find customers. They do not create products that the market wants.
- Insurance awareness among the general public is low.
- Term-insurance plans are not promoted.
- Unit-linked assurances are not available.
- Insurance covers are expensive.
- Returns from insurance products are low.
- There is a dearth of innovative and buyer-friendly insurance products.
- There is no market research worth the name and computerization is woefully inadequate.
- Most agents and development officers are interested only in producing new business. They do not give priority to servicing existing customers satisfactorily. The reason is that incentives are based on new business generation and not on satisfactory serving of existing customers.

Author mentioned that India is one of the least insured countries among the emerging economies. There is huge potential for further growth in Indian Insurance market. The demand for insurance is expected to increase with growing per capita incomes, increasing literacy rates and raise of the service sectors. Further, privatisation will also produce bigger consciousness on the need for buying insurance as a service and not merely for taxation benefit instrument.

In the paper, "Issues and Challenges", **C.S.Rao (2006)**, IRDA Chairman, reports that the primary objective in regulating the insurance industry is to protect the interests of the policy holders. He feels that regulation or control inevitably resulted in:

- Unlimited discretionary powers to the service providers.
- Operational inefficiency and poor quality of service.
- Lack of transparency in the decision making, process and of accountability.
- High barriers to entry and negligible flow of private capital.
- Lack of protection of consumer interest, with non-competitive prices at the consumer end and highly restricted consumer choices.

But the scope of regulation has varied from country to country and within countries from sector to sector. However, universally, the scope of regulation has, inter alia, covered Regulation of tariff, ensuring quality of service, ensuring fair competition in the sector, improving the efficiency and productivity speedy resolution of disputes between different players. The credit for enlarging the insurance sector goes to both the public and private sectors.

Dr. M. Vidyasagar Reddy (2010), reported that the global financial meltdown has left India largely unaffected. There is a universal acknowledgment that this is due to the strong presence of public sector in the Indian banking and insurance industries. The world realized at great peril that finance capital is fundamentally in search of quick profits and hence speculative in character rather than having any enduring links with the industry. Therefore, India must remain cautious. The plans to further open up the insurance industry for private companies must be given up. Today, there is a conflict between the IRDA and SEBI over ULIPs and between RBI and SEBI over interest futures. The government must take steps to settle these conflicts and strengthen the regulatory mechanism for the orderly growth of the financial sector, insurance included.

History of Life Insurance in India

In India, the modern insurance business was commenced in nineteenth century in British Raj. The first life insurance company in India was oriental life insurance company established in year 1818 in Calcutta, though it failed in year 1834. In year 1829, the Madras Equitable had started carrying out life insurance business in the Madras Presidency. The British Insurance Act was passed in year 1870 and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were commenced in the Bombay Residency. Foreign insurance offices were dominating concerns in that period which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian concerns survived with tough competition from the foreign concerns. To stop the unfair trade practices, the Government of India took the decision to nationalize insurance business. In year the 1956, an ordinance was issued to nationalize the Life Insurance sector and the Life Insurance Corporation came into existence. Government of India initiated publication of proceeds of Insurance providers in India in year 1914. To empower the GOI, Indian Life Assurance Companies Act, 1912 was passed as to control life business. After that, the Indian Insurance Companies Act was passed to facilitate the Government of India to gather statistical data regarding insurance business (life and non life both) carried out in nation by native and overseas insurance companies together with provident insurance societies in the year 1928. In 1938, the former legislation was merged and modified by the Insurance Act, 1938 having wide-ranging provisions to regulate the actions of insurance companies to protect the interest of the Insurance policyholders. Hence, Indian insurance companies, foreign insurance companies and provident societies (154, 16 and 75 consequently); total 245 Indian and foreign insurance providers were merged in LIC. India faced monopoly of LIC till late 90s. Subsequently, the Insurance segment was again opened to the private segment to do business.

Thus, insurance business has come up as full circle in a journey from privatization, nationalization and privatization. In 1993, R.N. Malhotra committee was formed under the supervision of Mr. R.N. Malhotra, prior Governor of RBI, by the Government to suggest recommendations for modifications in the insurance industry. The purpose was to harmonize the reforms commenced in the financial sector. In the year 1994, the report was submitted by the said committee the recommendation to privatize the insurance sector was proposed with permission to foreign companies to do business in India preferably joint venture with Indian companies. In the year 1999, the Insurance Regulatory and Development Authority (IRDA) (now it is named as Insurance Regulatory and Development Authority of India i.e. IRDAI) was established as an autonomous body to control and expand the insurance sector in India pertaining to recommendations of R.N. Malhotra committee with objective of promoting the competition in insurance market so that enhance the benefits to customers with vast choices and premium reduction having financial security and overall protection to policyholders' interests. In August 2000, the IRDA unlocked the insurance market and invited applications to register the companies to start insurance business. The foreign companies could have up to 26% stake. Presently, the foreign direct investment in insurance sector has been increased upto 49% from the year 2015. The insurance industry is rising at a fast speed of 15-20%. In conjunction with banking services, insurance services contribute about 7% to the nation's GDP. A well-structured and developed insurance industry is a boon for expansion of economy because it supplies long- term funds for infrastructure progress and support the risk taking ability of the nation.

Post Privatization Trend of Private LI Sector

After privatisation, the insurance sector has exposed rapid growth in India. At present, the number of registered private life insurers is 23 in FY 2017-18 as compared to 10 in FY 2000-01. This trend of rise in number of life insurance companies shows how the professionals find good scope in life business. Insurance penetration and insurance density are the two parameters on which the potential and performance of the insurance industry is universally assessed. A ratio of premium underwritten in a given year to the Gross Domestic Product (GDP) shows the insurance penetration in nation. A ratio of premium underwritten in a given year to the total population (measured in USD for convenience of comparison) shows the insurance density.

The insurance penetration of life segment in FY 2017-18 has attained a level of 2.76% as compared to 1.77% in year 2000-01. Insurance density of life sector is raised to USD 55 in FY 2017-18 from USD 7.6 in FY 2000-01. The total LI Premium collected by private LI sector in FY 2017-18 was Rs. 140586.23 crore as compared to Rs.6.45 crore in FY 2000-01. There is drastic increase in distribution channels of Private life insurance players in India in FY 2017-18 as compared to FY 2000-01 viz., to 934319 to 2737. The market share of private life insurance players was 30.64% of whole Life Insurance Industry in FY 2017-18 as compared to 0.56% in FY 2000-01. The total fund invested by private life insurers stood at Rs. 662137 crore whereas it was Rs.726.6055 crore in FY 2000-01.

Below mentioned table shows achievements of Private Life Insurance Sector since opening for insurance business.

S. No.	Private LI Sector	Year 2000-01	Year 2017-18
1	No. of registered Private life insurance companies	10	23
2	Insurance Penetration for Life Insurance	1.77%	2.76%
3	Insurance Density for Life	USD 7.6	USD 55
4	Total LI Premium of Private Players	6.45 crore	140586.23 crore
5	Distribution channel statistics of Private Life Insurance players	No. Of Agents Total: 2737 Individual agents: 2737 Corporate Agents: NIL	No. Of Agents Total: 934319 Individual agents: 933856 Corporate Agents: Life : 75 Composite : 388
6	Market Share of Private LI Players to LI industry	0.56%	30.64%
7	Total Investment of Private LI Players	726.6055 crore	662137 crore

Source: www.irdai.gov.in

Individual Death Claims of Private Life Insurers

For private insurers, claim settlement ratio had raised by 1.52 percent at 95.24 percent for the period of the FY 2017-18 compared to 93.72 percent during the preceding year. The repudiations dropped to 3.97 percent in FY 2017-18 compared to the 4.85 percent in preceding year.

Private Life Insurers Offices

The number of offices shows the penetration of Insurance Business in all segments. Classification of locations done as under:

Population in Metro: 10 lakh and above ;

Population Urban: 1 lakh to below 10 lakh;

Population Semi-Urban: 10 thousand to 1 lakh;

Population Rural: upto 9999

Tier I Population - 1 lakh & Above.

Tier II Population - 50 thousand to 99,999.

Tier III Population - 20 thousand to 49,999

Tier IV Population - 10 thousand to 19,999.

Tier V Population - 5 thousand to 9,999.

Tier VI Population - below 5 thousand.

Number of Life Offices (As on 31 March, 2018)

Insurer/FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Private	3072	6391	8785	8768	8175	7712	6759	6193	6156	6179	6057	6204

Source: www.irdai.gov.in

Distribution of Offices of Life Insurers - Number of Life Offices (As on 31 March, 2018)

Insurer	Metropolis	Urban	Semi-Urban	Rural	Total
Private	1978	2864	1304	58	6204

Source: www.irdai.gov.in

Distribution of Offices of Life Insurers – Tier Wise (As on 31 March, 2018)

Insurer	Tier I	Tier II	Tier III	Tier IV	Tier V	Tier VI	Total
Private	4842	744	468	92	27	31	6204

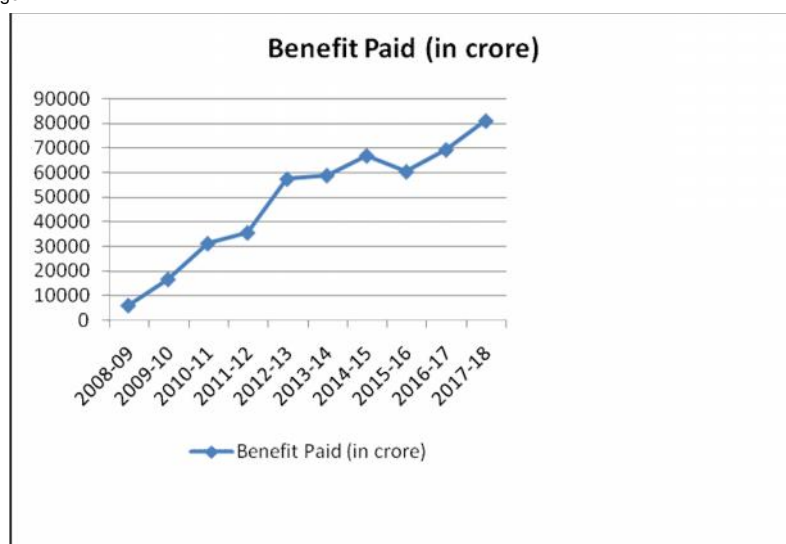
Source: www.irdai.gov.in

Benefits Paid by Private LI Sector

The benefits paid by private insurers shown in table below for past years. When we analyse the figures in the table, we find that there was increase in benefits paid by private insurers till FY 2014-15. The benefits paid in FY 2015-16 were lesser than in FY 2014-15. The amount of benefits paid in FY 2017-18 was greater than previous year.

FY	Benefit Paid (in crore)	Percentage of Premium Underwritten
2008-09	6025	9.34%
2009-10	16671	21% of premium underwritten
2010-11	31251	35.46%
2011-12	35635	42.33%
2012-13	57571	73.43%
2013-14	58994	76.28%
2014-15	67054.52	75.82%
2015-16	60565.05	60.26%
2016-17	69463	58.87%
2017-18	81235.59	57.78%

Source: www.irdai.gov.in

**Total Life Insurance Premium**

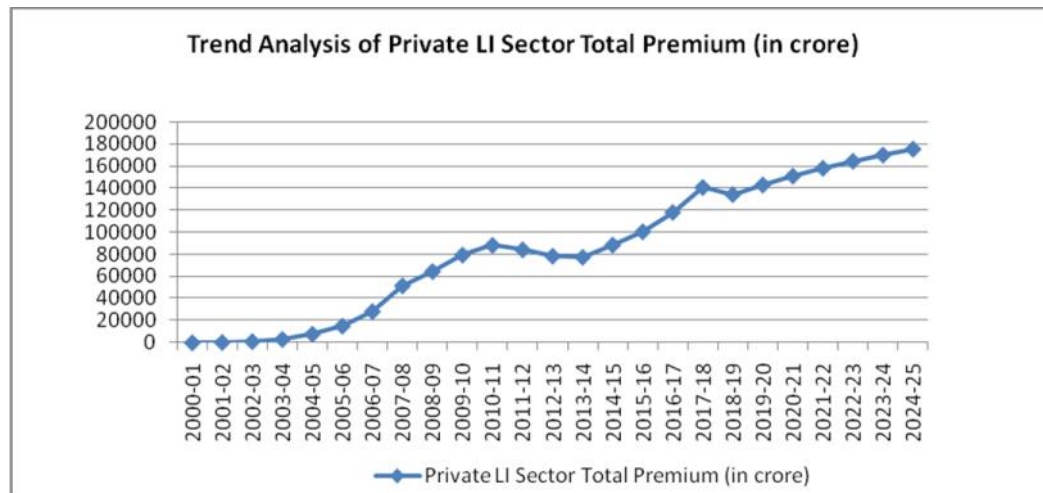
Private life insurance sector recorded a premium income of Rs. 140586.23 crore in FY 2017-18 and posted 19.15% growth in their premium income. In FY 2000-01 it was Rs.6.45 crore. Below mentioned table shows the trend of income from total life insurance premium of private sector since privatization.

Financial Year	Private LI Sector Total Premium (in crore)	Growth over previous year (in percentage)
2000-01	6.45	---
2001-02	272.55	(4124.31)
2002-03	1119.06	(310.59)
2003-04	3120.33	(178.83)
2004-05	7727.51	(147.65)
2005-06	15083.54	(95.19)
2006-07	28253.00	(87.31)
2007-08	51561.42	(82.50)
2008-09	64497.43	(25.09)
2009-10	79369.94	(23.06)
2010-11	88165.24	(11.08)
2011-12	84182.83	(-4.52)
2012-13	78398.91	(-6.87)
2013-14	77359.36	(-1.33)
2014-15	88434.35	14.32
2015-16	100499.03	(13.64)
2016-17	117989.25	(17.40)
2017-18	140586.23	(19.15)

Source: www.irdai.gov.in

Trend Analysis for FY 2018-19 To 2024-25	
Financial Year	Private LI Sector Total Premium (in crore)
2018-19	134095.86
2019-20	142859.1893
2020-21	150839.1176
2021-22	157963.9963
2022-23	164248.6355
2023-24	169920.1809
2024-25	175275.5589

Source: Computed projected trend value analysis



Interpretation

The trend value for the year 2025 can be calculated by using linear function $Y=A+BX$, where A and B are constants. If we substitute the value in the trend line equation the expected business (in terms of total premium) for the year 2025 is Rs. 175275.56 crores. It shows that the business of private insurance in India is in increasing trend.

Conclusion

Subsequent to the reforms in insurance industry, life insurance industry has witnessed a significant growth moreover; the regulatory process provided a favorable environment for insurance companies to prosper in the nation. Till 2018, there are 24 life insurance companies operating in India of which 23 are private life insurance business. The share of the life insurance business in total insurance business was very high and it is ranked 10th among the countries doing life insurance business. Private insurance companies have been successfully able to create value for their customers or policy holders. By analyzing the past data and trend of growth, remarkable growth can be seen in their business. There is enormous potential for life insurance and private players are positively trying to establish immense goodwill in our country. But, private insurance companies face cut throat competition with LIC. It is observed that LIC is enjoying its immense goodwill in country since long. So, private players have to make more efforts to enhance their business in terms of customer loyalty, distribution network, technological innovations, client relationship and quality of products.

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