

A Comparative Study of Public and Private Life Insurance Companies in Post Liberalization Era

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Abstract

The objective of present study is to compare the performance of public and private life insurers in terms of their number of new policies issued; total premium income and market share in India. The secondary data has been collected from year 2000-01 to 2015-16. In year 1993 Malhotra Committee emphasized on privatization of insurance business, since then there was monopoly of LIC. In year 1999 the Insurance Regulatory and Development was established to regulate and to protect the policyholder's interest of the insurance industry. It has been observed by the study that private life insurers put efforts to improve its performance year after year and affected the LIC in many ways for initial first decade. To overcome and compete with this situation LIC introduced new and attractive insurance plans, put efforts for better customer relationship management and effective advertising. There is very high potential in life insurance sector as the population of India is very huge and still there is untapped life insurance market.

Keywords

Life Insurance, Liberalization, Untapped Market, Performance.

I. Introduction

Life Insurance business in India was nationalized by incorporating Life Insurance Corporation of India" (LIC) in 1956. After the Indian economic reform 1991 there was a significant improvement in the Indian insurance sector which is characterized by Liberalization, Privatization and Globalization (LPG). In year 1993 the Malhotra Committee emphasized on privatization of life insurance business.

The Indian insurance industry was opened for private insurers in the year 1999, with the establishment of Insurance Regulatory and Development Authority Act (IRDA Act). Before liberalization there was monopoly of Life Insurance Corporation of India (LIC). The entry of private companies in life insurance business breaks the monopoly of LIC. The Insurance Regulatory and Development was established to regulate and to protect the policyholder's interest of the insurance industry. Indian life insurance is the fastest growing sector, with many domestic and foreign players. The government of India allowed private insurers in year 2000 with 26% foreign direct investment.

In the post liberalization era, the life insurance sector of India witnessed a significant growth as there is healthy competition from many domestic as well as foreign private insurers.

There is tremendous growth potential for life insurance sector in India as we have huge population and still the Indian life insurance market is untapped. Further, it indicates the growth prospects and a huge potential for life insurance business in the country.

II. Review of Literature

C. Barathi, C. D. Balaji and Ch. Ibohal Meithei (2011), in the research paper titled "Innovative Strategies to Catalyse Growth of Indian Life Insurance Sector- an Analytical Review" have clearly discussed about the impact of global recession on the fastest

growing Indian insurance market. They find the entry of many private companies has created a paradigm shift in insurance marketing in India in terms of products, tariffs; customer service etc. Chatterjee. P (2009) evidently said private insurers recorded 62% growth rate in April-December 2008 against 45% in the same period of last fiscal. ICICI Prudential, HDFC Standard, SBI Life and Bajaj Allianz are the dominant players of the life Insurance sector. LIC a market leader recorded a decline of 28% and experts said the Industry has witnessed a reasonable growth despite the tight financial conditions. Kapse. S and Kodwani D.G (2003), in their article, argued that in the changing scenario for the insurance sector there is going to be a good opportunities for insurance sector to expand its market base. For this purpose there is need to improve the features of the insurance products to make them more liquid or short term schemes could be increased. Krishnamurthy S, Mony. S, Jhaveri. N, Bakhshi. S, Bhat. S and Dixit M.R (2005), in their paper clearly explained the status and growth of Indian Insurance Industry after liberalization and also present future challenges and opportunities linked with the Insurance.

Rajasekar D and T.H.Kumari (2014), the level of penetration, particularly in life insurance, tends to rise as income levels increase. The market share of the entire private players has sharply risen with the entry of private players in life insurance market. This indicates that the private players are doing quite well and are improving year by year, thus affecting the performance of LIC. Rao Divakara P (2015), Number of policies has subsequently increased year after year but the performance of LIC has deteriorated and those of private players have been improved tremendously. With every successive year, private players are gaining the trust of the public and have quite successful in snatching the business from LIC. Though the income of private insurance companies is negligible when compared with LIC but then also the pace with which they are increasing their income is tremendous. Private insurance companies are expanding their business and will certainly going to give a tough competition to LIC in the coming days.

LIC, being the oldest player in the existing insurance market, has the biggest market share of 64.39% which was 99% in the year 1999-2000. We see that private insurance companies are penetrating in the customer base of LIC. Private insurance companies are giving a tough competition to the LIC.

Tripathi. S (2009), in his dissertation report mentioned that Private companies are giving direct competition to LIC, LIC is a dominating player even after privatization and abundance scope of insurance expansion in the Indian market, LIC is having huge customer base being an old giant are some of the main findings of this study. He concluded that LIC is a most popular and leading brand but with aggressive marketing approach; private companies are giving direct competition to LIC.

III. Objectives of the Study

The objective of present study is to examine the impact of

liberalization on life insurance business in India. In addition to this general objective, the following are the specific objectives of the study:

- To examine the structure and review of life insurance industry in India
- To compare the performance of public and private life insurers.

IV. Research Methodology

The present study is based on secondary data. The data was collected for one and half decade i.e. from year 2000-01 to 2015-16. The comparison of public and private sector life insurance

companies is analyzed by three major indicators of growth and performance which are new life insurance policies issued by the companies, premium income, and market share.

V. Historical Evolution of Life Insurance Business in India

Insurance has a very deep-root history in India. There are references in the writings of Manu (Manusmriti), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). Some of the important milestones in the life insurance business in India are given in the following table.

Milestone's in the life insurance business in India

| | |
|------|---|
| 1912 | The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business |
| 1928 | The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses |
| 1938 | Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public. The Insurance Act: Comprehensive Act to regulate insurance business in India |
| 1956 | 245 Indian and foreign insurers and provident societies taken over by the central government and nationalized. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India. |
| 1972 | 1972 Nationalization of general Insurance business in India |
| 1993 | Setting up of Malhotra Committee |
| 1994 | Recommendations of Malhotra Committee |
| 1995 | Setting up of Mukherjee Committee |
| 1996 | Setting up of (interim) Insurance Regulatory Authority (IRA) |
| 1997 | The Government gives greater autonomy to LIC, GIC and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector |
| 1998 | The cabinet decides to allow 40% foreign equity in private insurance companies-26% to foreign companies and 14% to NRI's, OCB's and FII's |
| 1999 | The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA bill is renamed the Insurance Regulatory and Development Authority (IRDA) Bill 1999 Cabinet clears IRDA Bill 2000 President gives Assent to the IRDA |

A. Life Insurance Companies operating in India

The number of life insurance companies in India in the year 2001 were total 5 out of which one was public sector i.e. Life Insurance corporation of India and 4 were private sector. The liberalization policy of government of India opened the doors for private life insurers for entering in the insurance business and allowed foreign direct investment up to 26% in the year 2000, as a

result, many private insurers entered in it. The number of private insurers increased year by year from 5 in the year 2001 to 23 in the year 2016. At present, there are 24 life insurance companies in operating in India.

The following tables shows the number of life insurance companies operating in India, their date of registration and year of operation and the number of offices in India.

Table 1: Life Insurance Companies Operating in India

| S. No. | Insurers | Foreign Partners | Date of Registration | Year of Operation |
|--------|-------------------------------------|--|----------------------|-------------------|
| 1 | Life Insurance Corporation of India | ---- | 01/09/1956 | 1956-57 |
| 2 | HDFC Standard | Standard Life Assurance, UK | 23/10/2000 | 2000-01 |
| 3 | Max New York | New York Life, USA | 15/11/2000 | 2000-01 |
| 4 | ICICI Prudential | Prudential Plc, UK | 24/11/2000 | 2000-01 |
| 5 | Kotak Mahindra Old Mutual | Old Mutual, South Africa | 10/01/2001 | 2001-02 |
| 6 | Birla sun Life | Sun Life, Canada | 31/01/2001 | 2000-01 |
| 7 | TATA AIG | American International Assurance Co. , USA | 12/02/2001 | 2001-02 |

| | | | | |
|----|---------------------|---|------------|---------|
| 8 | SBI Life | BNP Paribas Assurance SA, France | 29/03/2001 | 2001-02 |
| 9 | ING Vysya | ING Insurance International B.V., Netherlands | 02/08/2001 | 2001-02 |
| 10 | Bajaj Allianz | Allianz, Germany | 03/08/2001 | 2001-02 |
| 11 | Metlife | Metlife International Holdings, Ltd., USA | 06/08/2001 | 2001-02 |
| 12 | Reliance | ----- | 03/01/2002 | 2001-02 |
| 13 | Aviva | Aviva International Holdings, Ltd., UK | 14/05/2002 | 2002-03 |
| 14 | Sahara | ----- | 06/02/2004 | 2004-05 |
| 15 | Shriram | Sanlam, South Africa | 17/11/2005 | 2005-06 |
| 16 | Bharti AXA | AXA Holdings, France | 14/07/2006 | 2006-07 |
| 17 | Future Generali | Generali, Italy | 04/09/2007 | 2007-08 |
| 18 | IDBI Federal | Ageas, | 19/12/2007 | 2007-08 |
| 19 | Canara HSBC OBC | HSBC, UK | 08/05/2008 | 2008-09 |
| 20 | Aegon Religare | Aegon, Netherlands | 27/06/2008 | 2008-09 |
| 21 | DLF Pramerica | Prudential of America, USA | 27/06/2008 | 2008-09 |
| 22 | Star Union Dai-ichi | Dai-ichi Mutual life Insurance, Japan | 26/12/2008 | 2008-09 |
| 23 | India First | Legal & General Middle East Ltd, UK | 05/11/2009 | 2009-10 |
| 24 | Edelweiss Tokio | Tokio Marien Holding Inc, Japan | 12/05/2011 | 2011-12 |

B. Insurance Penetration & Density in India

The level of development of insurance sector in a country reflects by its measure of insurance penetration and density. Insurance penetration is measured as the percentage of insurance premium to GDP where as insurance density is calculated as the ratio of premium to population (per capita premium).

Life insurance penetration in India has suddenly and greatly improved since liberalization from 2.15 percent in 2001-02 to 4.60 percent in 2009-10. It is due to increase in new participants of business, wide range of innovative products, development and effective use of new distribution channels by private life

insurance players. The declining trend is observed in life insurance penetration from 4.4 percent in year 2010-11 to 2.6 percent in year 2014-15. Once again there has been a slight increase i.e. 2.72 percent in year 2015-16.

The same trend was observed in the level of life insurance density which reached the maximum of USD 57.7 in the year 2010-11 from the level of USD 9.1 in 2001-02. In year 2011-12 the life insurance density falls by 11.6 percent i.e. 49 USD and continued 41 USD till 2013-14. Again there is a slight increase in life insurance density in year 2014-15 i.e. 44 USD and a little decline shown in year 2015-16 i.e. 43.2 USD.

Table 2: Insurance Penetration & Density in India

| Year | Life | | Non-Life | | Total | |
|---------|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| | Penetration (%) | Density (USD) | Penetration (%) | Density (USD) | Penetration (%) | Density (USD) |
| 2001-02 | 2.15 | 9.1 | 0.56 | 2.4 | 2.71 | 11.5 |
| 2002-03 | 2.59 | 11.7 | 0.67 | 3.0 | 3.26 | 14.7 |
| 2003-04 | 2.26 | 12.9 | 0.62 | 3.5 | 2.88 | 16.4 |
| 2004-05 | 2.53 | 15.7 | 0.64 | 4.0 | 3.17 | 19.7 |
| 2005-06 | 2.53 | 18.3 | 0.61 | 4.4 | 3.14 | 22.7 |
| 2006-07 | 4.10 | 33.2 | 0.60 | 5.2 | 4.80 | 38.4 |
| 2007-08 | 4.00 | 40.4 | 0.60 | 6.2 | 4.70 | 46.6 |
| 2008-09 | 4.00 | 41.2 | 0.60 | 6.2 | 4.60 | 47.4 |
| 2009-10 | 4.60 | 47.7 | 0.60 | 6.7 | 5.20 | 54.4 |
| 2010-11 | 4.40 | 55.7 | 0.71 | 8.7 | 5.10 | 64.4 |
| 2011-12 | 3.40 | 49.0 | 0.70 | 10.0 | 4.10 | 59.0 |
| 2012-13 | 3.17 | 42.7 | 0.78 | 10.5 | 3.96 | 53.2 |
| 2013-14 | 3.10 | 41.0 | 0.80 | 11.0 | 3.90 | 52.0 |
| 2014-15 | 2.60 | 44.0 | 0.70 | 11.0 | 3.30 | 55.0 |
| 2015-16 | 2.72 | 43.2 | 0.72 | 11.5 | 3.44 | 54.7 |

Insurance Penetration is measured as ratio of premium (in US Dollar) to GDP (in US Dollar)

Insurance Density is measured as ratio of premium (in US Dollar) to total population

One apparent reason for the shrinking life insurance sector is the restructuring of the distribution network with the ramping up of the quality and skills of the insurance agents which has reduced their numbers. Curbs were also put on the size of the commissions and payment procedures and also on the sale of units linked insurances plans which badly hit the earning incentive of the agents.

VI. Comparison of Life Insurance Sector in Post Liberalization ERA

There is comparison of the performance of public and private life insurers in terms of their number of new policies issued; total premium income and market share in India.

Number of New Life Insurance Policies Issued

Number of new life insurance policies issued by insurer is an important indicator of growth and performance of the insurance companies. The table 2 shows the number of new policies issued by public and private life insurance companies from year 2001-02 to 2015-16.

Table 3: Number of New Policies Issued (in Lakhs)

| Year | Insurers | | Total |
|---------|--------------------|--------------------|--------------------|
| | Public (LIC) | Private | |
| 2001-02 | | | |
| 2002-03 | 245.46 (96.75) | 8.25 (3.25) | 253.71 |
| 2003-04 | 269.68 (9.87) | 16.59 (101.05) | 286.27 (12.83) |
| 2004-05 | 239.78 (-11.09) | 22.33 (34.62) | 262.11 (-8.44) |
| 2005-06 | 315.91 (31.75) | 38.71 (73.37) | 354.62 (35.29) |
| 2006-07 | 382.29 (21.01) | 79.22 (104.64) | 461.52 (30.14) |
| 2007-08 | 376.13 (-1.61) | 132.62 (67.4) | 508.74 (10.23) |
| 2008-09 | 359.13 (-4.52) | 150.11 (13.19) | 509.23 (0.10) |
| 2009-10 | 388.63 (8.21) | 143.62 (-4.32) | 532.25 (4.52) |
| 2010-11 | 370.38 (-4.70) | 111.14 (-22.61) | 481.52 (-9.53) |
| 2011-12 | 357.51 (-3.47) | 84.42 (-24.04) | 441.93 (-8.22) |
| 2012-13 | 367.82 (2.88) | 74.05 (12.28) | 441.87 (-0.01) |
| 2013-14 | 345.12 (-6.17) | 63.60 (-14.11) | 408.72 (-7.50) |
| 2014-15 | 201.71 (-41.55) | 57.37 (-9.79) | 259.08 (-36.61) |
| 2015-16 | 205.47 (1.86) | 61.92 (7.92) | 267.38 (3.20) |

Figure in brackets indicates the growth over the previous years
Source: IRDA Annual Reports Various Issues From 2001-02 to 2015-16

LIC in terms of new policies business has initially increased for first two years than there was a negative growth for year 2004-05 by -11.09%, again for another two years there was a growth in new policies business. From year 2007-08 to 2014-15 there was continuous decrease in new policies except in year 2009-10 and 2012-13, year 2014-15 is very discouraging as there was very negative growth (-41.55%) and in year 2015-16 there is marginal increase (1.86%) in LIC's new policies. Hence in post liberalization public sector life insurer's (LIC) new policy business

falls from 232.75 lakhs to 201.71 lakhs in 15 year

There was continuous growth in private insurers' new policies issued since its inception to year 2008-09 it reached from 8.25 lakh policies to 150.11 lakhs. From year 2009-10 to 2014-15 there was continuous negative growth i.e. from 143.62 lakh policies to 57.37 lakh policies. Once again there is a positive growth in private insurers' new policies issued i.e. 61.92 lakhs (7.92%) in year 2015-16.

Premium Income

It is a fact that premium considered as a major source of income of life insurers therefore it is the most important indicator of growth and performance of insurance business. The Table 3 shows the total premium income of LIC and private insurers during year 2001-02 to-2015-16.

Table 4: Life Insurance Premium

| Year | Insurers | | Total |
|---------|----------------------|----------------------|----------------------|
| | Public (LIC) | Private | |
| 2000-01 | 34892.02 | 6.45 | 34898.47 |
| 2001-02 | 49821.91 (42.79) | 272.55 (4124.31) | 50094.46 (43.54) |
| 2002-03 | 54628.49 (9.65) | 1119.06 (310.59) | 55747.55 (11.28) |
| 2003-04 | 63533.43 (16.3) | 3120.33 (178.83) | 66653.75 (19.56) |
| 2004-05 | 75127.29 (18.25) | 7727.51 (147.65) | 82854.80 (24.31) |
| 2005-06 | 90792.22 (20.85) | 15083.54 (95.19) | 105875.76 (27.78) |
| 2006-07 | 127822.84 (40.79) | 28253.00 (87.31) | 156075.84 (47.41) |
| 2007-08 | 149789.99 (17.19) | 51561.42 (82.50) | 201351.41 (29.01) |
| 2008-09 | 157288.04 (5.01) | 64497.43 (25.09) | 221785.47 (10.15) |
| 2009-10 | 186077.31 (18.30) | 79369.94 (23.06) | 265447.25 (19.69) |
| 2010-11 | 203473.40 (9.35) | 88131.60 (11.04) | 291605.0 (9.85) |
| 2011-12 | 202889.28 (-0.29) | 84182.83 (-4.52) | 287072.11 (-1.57) |
| 2012-13 | 208803.58 (2.92) | 78398.91 (-6.87) | 287202.49 (0.05) |
| 2013-14 | 236942.30 (13.48) | 77340.90 (-1.35) | 314283.20 (9.43) |
| 2014-15 | 239667.65 (1.15) | 88433.49 (14.32) | 328101.14 (4.39) |
| 2015-16 | 266444.21 (11.17) | 100499.02 (13.64) | 366943.23 (11.84) |

Figure in brackets indicates the growth over the previous years
Source: IRDA Annual Reports various issues from 2001-02 to 2015-16

It is clear from the table that the total premium income of LIC in year 2000-01 was Rs. 34892.02 crores and it reached up to Rs. 266444.21 crores in 2015-16 with a constant growth. The growth in the total premium income of LIC was recorded maximum in

the year 2001-02 i.e. 42.79% and in year 2006-07 it was 40.79%. After year 2006-07 there was very slow growth rate in it over the previous years. There is negative growth (-0.29%) in year 2011-12. Again there is continuous growth in premium income for next four years and it reaches up to Rs 266444.21 crores.

In case of private insurers total premium income was 6.45 crores in year 2000-01 and it reached up to Rs 100499.02 crores in 2015-16. The growth in total premium income of private insurers was recorded maximum 4124.31% in 2001-02. From year 2002-03 the growth rate has been continuously increasing in every successive year as compare to previous year. There was consecutive negative growth (-4.52, 6.87 & -1.35%) for three years 2011-12 to 2013-14. Once again there was growth in premium income for next two years.

Market Share of Insurers

Market share is also an important parameter of performance of life insurers. It represents the percentage of an industry's total sales earned by a particular company over a specified time period. Table 5 shows the market share in terms of total premium of both LIC and private insurers from the period 2001-02 to 2015-16.

Table 5: Market Share of Insurers

| Financial Year | Public (LIC) | Private Insurers |
|----------------|--------------|------------------|
| 2001-02 | 99.46 | 0.56 |
| 2002-03 | 97.19 | 2.01 |
| 2003-04 | 95.29 | 4.71 |
| 2004-05 | 90.67 | 9.33 |
| 2005-06 | 85.75 | 14.25 |
| 2006-07 | 81.90 | 18.10 |
| 2007-08 | 74.39 | 25.61 |
| 2008-09 | 70.92 | 29.08 |
| 2009-10 | 70.10 | 29.90 |
| 2010-11 | 69.77 | 30.23 |
| 2011-12 | 70.68 | 29.32 |
| 2012-13 | 72.70 | 27.30 |
| 2013-14 | 75.39 | 24.61 |
| 2014-15 | 73.05 | 26.95 |
| 2015-16 | 72.61 | 27.39 |

Source: IRDA Annual Reports various issues from 2001-02 to 2015-16

It reveals from the Table 4 that the market share of LIC has been constantly decreasing from 99.46% in 2001-02 to 69.77% in 2010-11; there is slight increase in market share in 2011-12 to 2013-14 and again there is decrease in market share for two years i.e. in 2014-15 and 2016-17.

In contrast the market share of private insurers has been increasing rapidly from 0.56% in 2001-02 to 30.23% in 2010-11, there was slight decrease in market share in 2011-12 to 2014-15 and again there is marginal increase in year 2015-16. It indicates that the private insurers tried to improve year after year and affected the performance of LIC for initial first decade of their business.

VII. Conclusion

Liberalization has led to the entry of the largest insurance companies in the Indian insurance market and has become more attractive for foreign insurers due to saturation of insurance market in many foreign countries. That is why Indian insurance

industry has become a growing industry with many domestic and international players. Different life insurance companies increased the competition in this industry. This level of competition has increased the number of innovative and attractive insurance plans, better customer services and increased insurance awareness in India. Huge population in our country and a big untapped market has increased its scope of growth for next many years.

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