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How Life Insurance Sector has Evolved Over Past Years? - A Comparative Study of LIC and Private Players

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Abstract: *Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first Life Insurance company on Indian Soil. The first two decades of the twentieth century saw lot of growth in Insurance business. On December 7, 1999, Parliament passed the Insurance Regulatory and Development Authority (IRDA) Act which paved the way for granting licenses to private sector life-insurance companies. Life Insurance is the fastest growing sector in India since 2000 as Govt. allowed private players and FDI upto 26%. Therefore, monopoly of LIC came to an end and the corporation has to perform in a competitive environment. In the present paper, an attempt has been made to analyse the growth of insurance sector with regard to premiums, market share and number of offices. A comparative study has been done regarding the growth of LIC and various other private players.*

Keywords: Life Insurance.

I. HISTORY OF INSURANCE

The modern concept of insurance in India started with the establishment of East India Company in 18th century. Some insurance company from Great British started insuring Britishers working in India. First insurance company which was established in Calcutta in 1818 was the Oriental Life Insurance Company. In 1823, Bombay Life Insurance Company started its business by insuring lives for 2-3 years.After that Madras Equitable Company came into existence in 1829. Many other companies also tried to establish business in India but failed very soon due to their unethical business practices. The British Parliament enacted an Insurance Act in 1870 and then Bombay Mutual life Assurance Society established the first Indian Life Insurance company in India. The first statutory measure to regularize life business in India was taken in 1914, when the Government enacted the Indian Life Assurance Companies Act, 1912. In 1928, The Insurance Act was passed which empowered the Government to collect the statistical information about both life and non-life business transacted in India and foreign insurers including provident societies. In 1938, the earlier act was consolidated and amended by the Insurance Act, 1938. In 1956, the Government of India issued a notification of nationalization of insurance companies. As a consequence, the Life Insurance Corporation came into existence in 2000, the IRDA was established which opened the market for private as well as for foreign players.

1.1 Objectives of LIC

- Spread Life Insurance widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.
- Maximize mobilization of people's savings by making insurance-linked savings adequately attractive.
- Bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best

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advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.

- Conduct business with utmost economy and with the full realization that the moneys belong to the policyholders.
- Act as trustees of the insured public in their individual and collective capacities.
- Meet the various life insurance needs of the community that would arise in the changing social and economic environment.
- Involve all people working in the Corporation to the best of their capability in furthering the interests of the insured public by providing efficient service with courtesy.
- Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objective.

1.2 Indian Life Insurance Industry- Overview

All life insurance companies in India have to comply with the strict regulations laid out by Insurance Regulatory and Development Authority of India (IRDA).

A. Indian Insurance in the Global Scenario

India's share in global life insurance market was 2.73 per cent during 2019. Compared to the previous year, the life insurance premium in India increased by 9.63 per cent whereas global life insurance premium increased by 1.18 per cent. The life insurance industry is expected to *increase at a CAGR of 5.3% between 2019 and 2023*.

The life insurance industry recorded a premium income of INR 508,132.03 crore during 2018-2019, as opposed to INR 458,809.44 crores in the previous financial year, registering a growth of 10.75% (9.64% growth in the previous year). While private-sector insurers witnessed 21.37% growth (19.15% growth in the previous year) in their premium income, LIC (Life Insurance Corporation of India) recorded 6.06% growth (5.90% growth in previous year).

Factors Affecting Growth of Indian Insurance Industry

The industry is on its way to development and a number of factors govern that growth. Some of them are:

- **Significantly Untapped Latent Potential:** India's insurance industry has witnessed rapid growth during the last decade. Consequently, many foreign companies have expressed their interest in investing in domestic insurance companies, despite the Government of India's regulation, which mandates that the foreign shareholding limit is fixed at 26% for the life as well as non-life insurance sectors. How can this potential be tapped efficiently? This report analyzes the issues of the industry and suggests methods to overcome them.
- **Recent Regulatory Developments that Govern the Current Market State:** The development of the insurance industry in India is likely to be critically dependent on the nature and quality of regulation. Overall, the regulatory environment is favorable and takes care that players maintain prudent underwriting standards, and reserve valuation and investment practices. The primary objective for the current regulations is to promote stability and fair play in the market place. Our report details some major regulations by the IRDA as well as those concerning ULIPS, IPOs, among others. There are certain factors that need to be considered by the Indian insurance industry to ensure a seamless growth in business. Some of these include:
- **Distribution Channels:** The effectiveness and cost of diverse distribution strategies of different players is crucial in ensuring the success of players in the insurance business, particularly in the retail lines of business.
- **Focus on Financial Inclusion:** The approach to insurance must be in sync with the evolving times. The mission of the insurance sector in India should be to extend the insurance coverage over a larger section of the population and a wider segment of activities.
- **Consumer Needs and Preferences:** The growth in insurance industry has been spurred by product innovation, vibrant distribution channels, coupled with targeted publicity and promotional campaigns by the

insurers. Innovation has come not only in the form of benefits attached to the products, but also in the delivery mechanism through various marketing tie-ups. All these efforts have brought insurance closer to the customer as well as made it more relevant.

II. OPPORTUNITIES

Privatization of Insurance eliminated the monopolistic business of Life Insurance Corporation of India. It helps to introduce new range of products which covered wide range of risks. It resulted in better customer services and help improve the variety and price of insurance products. The entry of new player has speed up the spread of both life and general insurance. It will increase the insurance penetration and measure of density. Entry of private players will ensure the mobilization of funds that can be utilized for the purpose of infrastructure development.

The participation of commercial banks into insurance business helped to mobilization of funds from the rural areas because of the availability of vast branches of the banks. Most important not the least tremendous employment opportunities were created inthe field of insurance which is a burning problem of the presence day today issues. There is low penetration in the market and there is great opportunity of more players to participate in this field to increase the life insurance market.

LIC is a state owned enterprise. LIC emerged as a dominant enterprise over a long period of time and in the 10 years of the opening of this sector, LIC has retained large market share.Also the industry has not been able to cover much percentage of people in the country. Out of approx. 3% of the population covered, LIC has a large percentage of people covered under it. It has been often said that state owned enterprise can have strong incentives to engage in anticompetitive activities that serve to expand the scale and scope of their operative activities.

2.1 Entry Barrier

Life insurance covers approx. 3% of the total Indian population. India needs that more players come in life insurance sector and cover a large population with life insurance. For this, it is required to allow more Foreign Direct Investment in insurance sector so that more funds are available with foreign players come in market and the size of market grows. There is scope of higher capital infusion, the higher the growth of market possible. Despite the progress, India's insurance sector remains very small compared with some of the major emerging markets. India's share of global insurance market is less than 1%. The insurance industry lags behind other economies in the baseline measure of insurance penetration. Industry is now open to private players under the government mandate of a minimum capital of Rs.100 crore of which a maximum of 26% stake can be held by a foreign partner as equity. Global insurers are now permitted to set up and register a domestic company in order to write business in India. However, regulations stipulate that they have a capital base of at least US $ 20 million, and their investment in such company is capped at 26 percent. Thus, to participate in the market, they must form a joint venture with an Indian partner that is able to invest the remaining funds.

The equity investments limit is the same for global reinsures seeking to write business in India, but they are required to put up a capital of approximately US$ 45 million in order to establish a domestic company. On the other hand, no global reinsurer has established a domestic company. Instead, most of the top international reinsurance companies operate from their overseas offices by sharing the reinsurance risks picked up by the GIC. A recent proposal has been put forward to increase foreign direct investment to 49 percent. In addition, global companies are pushing for the right to establish branch offices in India. These changes are likely to substantially increase the presence of international insurers, reinsurers, and brokers in India. Currently, FDI represents only Rs.827 crore of the Rs.3179 crore capitalizations of private life insurance companies. FDI in insurance would increase the penetration of insurance inIndia, where the penetration of insurance is abysmally low with insurance premium at about 3 percent of GDP against about 8 percent global average. This would be better through marketing effort by MNCs, better product innovation, consumer education etc. The ASSOCHAM President Sajjan Jindal maintains that insurance sector in India has the capability of raising long term capital from the market as it is the only avenue where people put in money for as long as 30 years even more. An increase in FDI in insurance would indirectly be a boon for the Indian economy, the investments not withstanding but by making more people invest in long term funds to fuel the growth of the Indian economy, he feels. On 13th January, 2011, in a move to dent investor sentiment, the parliamentary standing committee on finance is set to reject government's move to further open the insurance sector. The Insurance Amendment Bill, tabled in parliament, had proposed to raise the foreign investment limit in the key financial sector to 49% from 26% fixed a decade ago. A majority of committee members felt that a higher foreign direct investment ceiling could affect domestic players. Though the government is not bound to accept the standing committee's recommendations, the suggestions will make its daunting and force it to cut deals with small groups in Lok Sabha to muster support for the passage of the bill. FDI cap is the biggest entry barrier stopping the growth of the life insurance market and narrowing down the market size. With the opening up of market for foreign players the competition will get a boost and the service will reach out for masses increasing the size of market. With no profits or little profits to private players there is a requirement of Capital Adequacy Ratio. As the market grows the market has to meet out the Capital adequacy norms. Capital infusion can be brought in terms of Foreign Direct Investment. And preventing FDI in India is proving to be a hindrance in increasing the market size.

III. OBJECTIVES OF THE STUDY

The objective of the present study is to compare the performance of public and private life insurance companies. The main objectives of the study are:

1. To evaluate the growth of public and private life insurerswith regard to premiums, market share and number of branches.
2. To observe the position of LIC in Indian Insurance Industry.

3.1 Hypotheses of the Study

For the purpose of this study, the following null hypotheses are formed:

- There is no significant difference in the growth of number of policies issued among public and private life insurance companies.
- There is no significant difference in the growth rate of total life insurance premium among public and private life insurance companies.
- There is no significant difference in the growth rate of total branches of public and private life insurance companies.
- There is no significant difference in the market share among public and private life insurance companies.

IV. RESEARCH METHODOLOGY

The research article is based upon descriptive as well as exploratory research. Secondary sources of data collection have been adopted for the study. The relevant and required data are collected from the text books, national and international articles, as well as annual reports of LIC.

4.1 Scope of the Study

The study includes the number of policies issued by LIC and private sector; the market share of LIC and private players and number of life insurance offices of LIC and private players. Besides, total life insurance premium received by LIC and other players has also been analysed in order to compare the performance and growth.

4.2 Period Coverage

Insurance sector was privatised in the year 2000, however the present study relates to post privatisation period. The study has been conducted on the data for 10 years i.e. 2009-2010 to 2018-2019.

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4.3 Data Collection

The present study is based on secondary data. Data and information have been extracted from Annual Reports of IRDA and LIC of India. Besides, a few websites have also been consulted.

4.4 Statistical Tool Employed

The information so collected has been classified, tabulated and analysed as per the objectives oft he study. For the analysis of data, statistical tools like percentages, ratios, growth rates and graphs have been used.

4.5 Data Analysis

Table No. 1 depicts the total Life Insurance Premium collected by Life Insurance Industry. Figures in bracket shows the growth (in per cent) over the previous year. Life insurance industry recorded a premium collection of 337505.07 crore during 2018-19 as against 318223.3 crore in the previous financial year. While private sector insurers posted 21.37 percent growth (19.15 percent growth in previous year) in their premium income, LIC recorded 6.06 percent growth (5.90 percent growth in previous year). The position of LIC is better than Private Insurers over the period under study.

Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
LIC	186077.31 (18.30)	203473.4 (9.35)	202889.28 (-0.29)	208803.58 (2.92)	236942.3 (13.48)	239667.65 (1.15)	266444.21 (11.17)	300487.36 (12.78)	318223.2 (5.90)	337505.07 (6.06)
Private	79369.94 (23.06)	88165.24 (11.08)	84182.83 (-4.52)	78398.91 (-6.87)	77340.9 (-1.35)	88433.49 (14.32)	100499.02 (13.64)	117989.26 (17.40)	140586.24 (19.15)	170626.96 (21.37)
Total	265447.25 (19.69)	291638.64 (9.87)	287072.11 (-1.57)	287202.49 (0.05)	314283.2 (9.43)	328101.14 (4.39)	366943.23 (11.84)	418476.62 (14.04)	458809.44 (9.64)	508132.03 (10.75)

Table 1: Total Life Insurance Premium (in Rs. Crore)

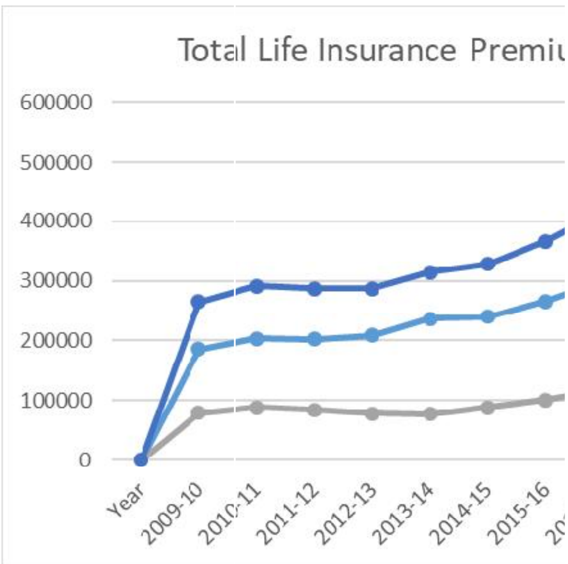

Figure 1: Total life Insurance Premium (in Rs. Crore)

Figure 1 highlights the facts given in table 1 in a line chart form showing the increase or decrease in total premium where series 1 represent total, series 2 represent share of LIC and series 3 represent share of private players.

Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
LIC	70.1	69.77	70.68	72.7	75.39	73.05	72.61	71.81	69.39	66.42
Private	29.9	30.23	29.32	27.3	24.61	26.95	27.39	28.19	30.64	33.58
Total	100	100	100	100	100	100	100	100	100	100

Table 2: Market Share of Life Insurers in total Market

Table No. 2 highlights the market share of LIC and Private Insurers. On the basis of total premium income, the market shares of LIC decreased from 69.36 percent in 2017-18 to 66.42 percent in 2018-19.Whereas the market share of private insurers has increased from 30.64 percent in 2017-18 to 33.58 percent in 2018-19. In the time span of period under study the market share of LIC declined, whereas the position of private players is becoming better than LIC. The market share of Private Insurers shows increasing trend and there is a slight decline in the market share of LIC.

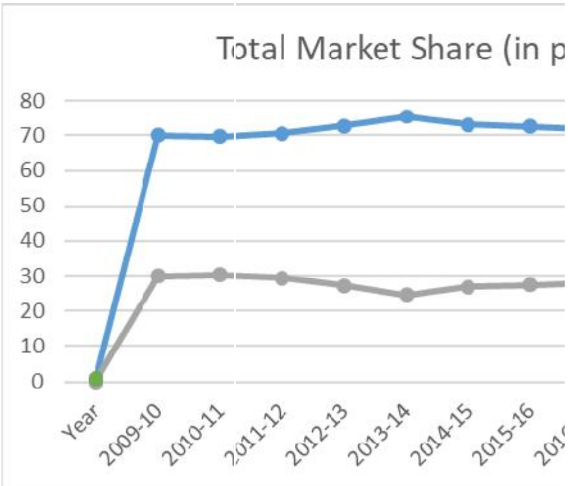

Figure 2: Market Share of Life Insurers in total Market

Table 3: Number of Policies Issued: Life Insurers (in Lakhs) growth over previous year

Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
LIC	8.21	-4.7	-3.47	2.88	-6.17	-41.56	1.86	-2.02	5.99	0.31
Private	-4.32	-22.61	-24.04	-12.28	-14.11	-9.79	7.92	2.13	8.47	5.61
Total	4.52	-9.53	-8.22	-0.01	-7.50	-36.61	3.20	-1.05	6.58	1.70

Table no. 3 depicts the total number of new policies issued by the life insurers. During 2018-19, life insurers issued 286.48 lakh new individual policies, out of which LIC issued 214.04 lakh policies and the private life insurers issued 72.44 lakh policies. While the private sector achieved a growth of 5.61% in the number of new policies issued against the previous year, LIC achieved a growth of 0.31%.There are constant ups and downs in the result of LIC and private players for this variable.

Insurer	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Private	8785	8768	8175	7712	6759	6193	6156	6179	6057	6204
LIC	3030	3250	3371	3455	3526	4839	4877	4892	4897	4908
Industry	**11815**	**12018**	**11546**	**11167**	**10285**	**11032**	**11033**	**11071**	**10954**	**11112**

Table 4: Number Of Life Insurance Offices- As on 31st march every year

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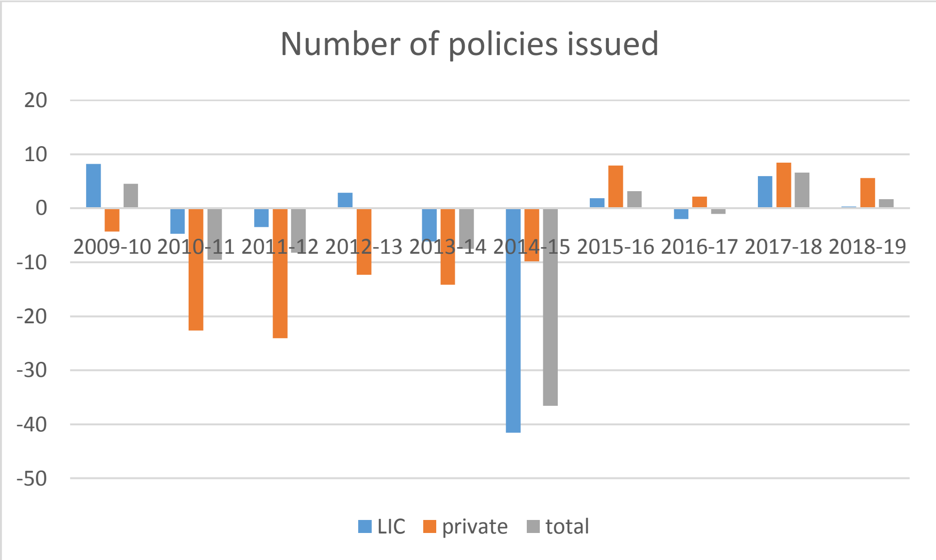

Figure 3: Number of Policies Issued: Life Insurers (in Lakhs) growth/decline over previous year

Table 4 shows the number of Life Insurance offices as opened by LIC and Private Players. The numbers show that during Number of Life insurance offices increased to 11112 as on 31.03.2018 compared to 10954 as on 31.03.2017

V. CONCLUSION

Where almost all the industries in the world trying hard for survival due to the major economic meltdown, Indian life insurance industry is one of the sectors that is still observing good growth. It is the changing trends of Indian insurance industry only that has made it to cope with the changing economic environment. Indian insurance industry has modified itself with the passage of time by introducing customized products based on customers' need, through innovative distribution channels, Indian life insurance industry searched its path to grow. Changing government policy and guideline of the regulatory authority, IRDA have also played a very vital role in the growth of the sector. Opening of the sector for private insurer broke the monopoly of LIC and bring in a tough competition among the players.Though privatization of the insurance sector is feared to affect the prospects of the LIC, the study shows that the LIC continues to dominate the sector. Private sector insurance companies also tried to increase their market share. Private life insurers used the new business channels of marketing to a great extent when compared with LIC.This competition resulted into innovations in products, pricing, distribution channels, and marketing in the industry. Though the sector is growing fast, the industry has not yet insured even 50% of insurable population of India. Thus the sector has a great potential to grow. To achieve this objective, this sector requires more improvement in the insurance density and insurance penetration. By adopting appropriate strategy along with proper government support and able guidance of IRDA, India will certainly become the new insurance giant innear future.

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