A Study of the Performance of Indian Life Insurance Sector in the Post Liberalisation Era

*** Dr. B. Vishnu Kumar**
****Kavitha Loya**

*Assistant Professor of Commerce, Government Degree College, Mahabubabad (T.S.)
**Research Scholor, Department Of Commerce and Business Management, Kakatiya University, Warangal

One of the basic preconditions for the growth of an economy is the growth in capital formation. Capital formation implies diversion of productive capacity of the economy to the making of capital goods that increases the productive capacity. The process of capital formation involves three distinct yet interdependent activities, viz., savings, finance and investment.

Out of many activities that are important for capital formation, finance forms a vital activity of routing the savings to investments so that capital formation takes place, thus leading to economic growth. This routing brings financial intermediation into picture. They facilitate flow of funds from surplus to deficit sectors. They are financial units and their main function is to manage the financial assets of other economic units. They borrow funds through issue of financial asset securities and re-lend the funds it raises. Most accepted financial intermediaries that are operating in our country are Banks, Investment companies, Insurance companies, Development Financial Institutions (DFIs), Non-Banking Finance Companies (NBFCs), Mutual Funds (MFs), Pension funds and some quasi Government agencies.

After banking, insurance is the most important segment of the financial sector, capable of providing huge amounts of funds for the economic development of the country. Insurance industry is an integral part of the financial system. Insurance companies play a significant role as financial intermediaries by providing liquidity and credit to the financial system. In turn, this helps in lowering the cost of capital and providing risk free opportunities to all the financial participants in the market.

Indian insurance sector is gradually increasing its contribution to the country's Gross Domestic Product (GDP). According to the report of Confederation of Indian Industry, Indian insurance industry has recorded a steady growth with a growth rate of over 30% in the last decade. India has the largest number of life insurance policies in the world.

Insurance sector along with the banking sector contributes significantly to the total GDP of India. Both these sectors contribute around 7% of the total GDP of India. The gross premium collection by the Insurance sector of India is nearly 2% of Gross Domestic Product of the country. As a matter of fact, the funds available with LIC as investments add up to 8% of India's GDP.

Objectives of the study:

The following are the important objectives of the present study:

- To understand the role of life insurance sector in the economic development,
- To understand the concepts of insurance density and penetration,
- To analyse the performance of Indian life insurance sector in the post liberalisation era.

Database and Methodology:

The study is based primarily on secondary source of data. The important sources are IRDA Annual Reports, LIC of India Annual Reports, IRDA Reports on Indian Insurance Statistics, related websites and other sources.

The data collected is presented in the form of tables and in order to have better understanding of the data collected statistical techniques such as percentages, simple averages, compounded annual growth rate (CAGR), ratios are used in the study.

Period of the study:

The data is collected and used in the study is for a period of 10 years from 2004-05 to 2013-14.

Post-liberalisation development:

With the enactment of IRDA and liberalisation of Indian insurance sector, the insurance industry has gone through a sea change. Major visible changes include the entry of private companies and a fall in the market share of LIC. A list of the life insurance companies operating in life insurance sector in India are shown below:

Life Insurance Companies operating in India as on 31.03.2014

S. No	Name of the Company	Foreign Partner	Date of Registration
01	LIC of India	---	01.09.1956
02	HDFC Standard LI Co. Ltd	Standard Life (Mauritius Holdings) 2006, UK	23.10.2000
03	Max Life Insurance Co. Ltd	Mitsui Sumitomo Insurance Co. Ltd, Japan	15.11.2000
04	ICICI Prudential LI Co. Ltd	Prudential Corporation Holdings Ltd., UK	24.11.2000
05	Kotak Mahindra Om LI Co. Ltd	Old Mutual Plc, UK	10.01.2001
06	Birla Sun LI Co. Ltd	Sun Life Financial (India), Canada	31.01.2001
07	Tata AIG LI Co. Ltd	American International Assurance Co, USA	12.02.2001
08	SBI LI Co. Ltd	BNP Paribas Cardiff, France	29.03.2001
09	Exide LI Co. Ltd	---	02.08.2001
10	Bajaj Allianz LI Co. Ltd	Allianz, SE Germany	03.08.2001
11	PNB MetLife India Insurance Co. Ltd	MetLife International Holdings Ltd., USA	06.08.2001
12	Reliance LI Co. Ltd	Nippon Life Insurance Co. Ltd, Japan	03.01.2002
13	AVIVA LI Co. Ltd	Aviva International Holdings Ltd., UK	14.05.2002
14	Sahara India LI Co. Ltd	---	06.02.2004
15	Shriram LI Co. Ltd	---	17.11.2005

16	Bharathi AXA LI Co. Ltd	AXA India Holdings, France	14.07.2006
17	Future Generali India LI Co. Ltd	Participatie Maatschapij Holland NV, Netherlands	04.09.2007
18	IDBI Federal LI Co. Ltd	Aegis Insurance Int. NV, Netherlands	19.12.2007
19	Canara HSBC OBC LI Co. Ltd	HSBC Insurance (Asia Pacific), UK	08.05.2008
20	Aegon Religare LI Co. Ltd	Aegon India Holdings BV, Netherlands	27.06.2008
21	DHLF Pramerica LI Co. Ltd	Prudential International Insurance, USA	27.06.2008
22	Star Union Daichi LI Co. Ltd	Dai – Ich life Insurance Co. Ltd, Japan	26.12.2008
23	India First LI Co. Ltd	Legal & General Middle East Ltd.	05.11.2009
24	Edlewiss Tokio LI Co. Ltd	Tokio Marine & Nichido Fire Insurance Co.Ltd, Japan	10.05.2011

Source: Handbook on Indian Insurance Statistics, IRDAI, 2013-14.

The insurance industry of India as on 31st March 2014 consists of 53 Insurance Companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India (GIC Re). Other stakeholders in Indian insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.

Life Insurance Penetration and Density in India:

Two important indicators of the level of development of the insurance sector in any country are:

(i) Insurance Penetration : This indicates the level of insurance penetration and is measured as the percentage of insurance premium in Gross Domestic Product (GDP) of a country, and
(ii) Insurance Density: It is defined as the ratio between the per capita expenditure on insurance premium with the per capita GDP of a country.

Both insurance penetration and density have increased significantly over the years in India, especially with the opening up of the insurance sector to the private companies. The details of the Indian life insurance density and penetration are shown in Table 1.

The life insurance density in India grew from USD 15.70 in the year 2004 to USD 41.00 by the year 2013. The average Indian life insurance density per year for the ten years period from 2004 to 2013 is USD 38.49 with an average increase of 13.86% per year. The average world life insurance density for the same period stands at USD 347.15.

The Indian life insurance penetration in the year 2004 stood at 2.53% and the same increased to 3.10% by the end of the year 2013. The average life insurance penetration for the ten years period from 2004 to 2013 is 3.58% with an average increase of 4.26% per year. The average world life insurance penetration for the same period stands at 4.09%.

Table 1 - Life Insurance Density and Penetration in India

Year	Indian Life Insurance		World Life Insurance	
	Density (USD)	Penetration (%)	Density (USD)	Penetration (%)
2004	15.70	2.53	291.50	4.55
2005	18.30 (16.56)	2.53 (0)	299.50 (2.74)	4.34 (-4.62)
2006	33.20 (81.42)	4.10 (62.06)	330.60 (10.38)	4.50 (3.69)
2007	40.40 (21.69)	4.00 (-2.44)	358.10 (8.32)	4.40 (-2.22)
2008	41.20 (1.98)	4.00 (0)	369.70 (3.23)	4.10 (-6.82)
2009	47.70 (15.78)	4.60 (15.00)	341.20 (-7.71)	4.00 (-2.44)
2010	55.70 (16.77)	4.40 (-4.55)	364.30 (6.77)	4.00 (0)
2011	49.00 (-12.03)	3.40 (-22.73)	378.00 (3.76)	3.80 (-5.00)
2012	42.70 (-13.47)	3.17 (-6.76)	372.60 (-1.43)	3.69 (-2.89)
2013	41.00 (-3.98)	3.10 (-2.21)	366.00 (-1.77)	3.50 (-5.15)
Average	**38.49 (13.86)**	**3.58 (4.26)**	**347.15 (2.70)**	**4.09 (-2.83)**

Source: Handbook on Indian Insurance Statistics 2013 – 14, IRDAI

* Figures in brackets indicate the percentage of change over previous year.

Several factors are responsible for the low levels of insurance density and penetration in the country. These include low consumer preference towards insurance products, untapped rural markets and constrained distribution channels. Before opening up of the sector to private insurers, it was felt that low levels of insurance density and penetration were due to ineffective market strategies adopted by Life Insurance Corporation (LIC) of India. Being a monopoly, the company had no strategic market plan.

Advertising initiatives were limited to the print and electronic media. It was mainly promoted that LIC's products as being tax saving tools for salaried individuals. Although the level of penetration has increased after the entry of other players, it is still low compared to other countries. As per the surveys conducted on low levels of density and penetration, the main problems can be attributed as:

- agents inability to clearly explain the features of the products,
- life insurance products are mainly treated as tax saving tools and are taken by only few segments of the society,
- the insurance operation are mainly confined to urban and semi-urban areas as a result the hugh rural market remains untapped,
- lengthy documents that are not user friendly, and
- the perception of the policyholders that agents are only concerned with their commissions

The low levels of insurance density and penetration offers huge opportunity for growth the insurance market is set to grow in the years to come. It is anticipated that the Indian insurance market is set to grow at the rate 30-35 percent per annum by 2020.

Premium Collection by Indian Life Insurance Sector:

With the liberalisation of the insurance sector and opening up of the sector to the private players, each player was trying their best to make their presence felt in the market as a result, there has been a growth of intense competition in the Indian life insurance sector. The collection of premium by the Indian life insurance sector from 2004-05 to 2013-14 are presented in Table 1.

Table 2 - Premium Collection by the Indian Life Insurance Sector

Year	First Year Premium	Renewal Premium	Total
2004-05	26217.64	56637.17	82854.81
2005-06	38785.54 (47.94)	67090.22 (18.46)	105875.76 (27.78)
2006-07	75649.21 (95.04)	80426.63 (19.88)	156075.84 (47.41)
2007-08	93712.52 (23.88)	107641.89 (33.84)	201351.41 (29.01)
2008-09	87331.08 (-6.81)	134454.39 (24.91)	221785.47 (10.15)
2009-10	109893.91 (25.84)	155553.34 (15.69)	265447.25 (19.69)
2010-11	126398.18 (15.02)	165240.46 (6.22)	291638.64 (9.87)
2011-12	113966.03 (-9.84)	173106.03 (4.76)	287072.06 (-1.57)
2012-13	107361.08 (-5.80)	179841.41 (3.89)	287202.49 (0.05)
2013-14	120319.66 (12.07)	193963.54 (7.85)	314283.20 (9.43)
Average	**89963.49 (21.93)**	**131395.20 (15.05)**	**221358.69 (16.87)**
CAGR	**16.46%**	**13.10%**	**14.26%**

Source: Handbook on Indian Insurance Statistics 2013-14, IRDAI

* Figures in brackets indicate the percentage of change over the previous year.

Table 2 reveals that the collection of first year premium for the life insurance sector in India has grown from Rs.26,217.64 crores in the year 2004-05 to Rs.1,20,319.66 crores in the year 2013-14 with an average premium collection of Rs.89,963.49 crores during the ten years period. The average increase in the premium collection for the ten-year period is 21.93% per year. The Compounded Annual Growth Rate (CAGR) in the collection of first year premium for the ten years period is 16.46%.

The collection of the renewal premium recorded an increasing trend year after year from 2004-05 to 2013-14. It can be observed from the table 2.1 that the collection of renewal premium for the year 2004-05 was Rs.56,637.17 crores and the same increased to 1,93,963.54 crores for the year 2013-14. The average collection of the renewal premium for the ten years period from 2004-05 and 2013-14 is Rs.131395.20 crores with an average increase of 15.05% per year. The CAGR in the collection of renewal premium for the ten years period is 13.10%.

The total premium collection by the Indian Life insurance sector for the period from 2004-05 and 2013-14 is found to be increasing. The total premium collection for the year 2004-05 was Rs.82,854.81 crores and increased to Rs.3,14,283.20 crores during the year 2013-14. The average collection of the total life insurance premium for the ten years period from 2004-05 and 2013-14 is Rs.2,21,358.69 crores with an average increase of 16.87% per year. The compounded annual growth rate in collection of the total premium by the Indian life insurance sector from the year 2004-05 to 2013-14 is 14.26%.

Assets under Management of Indian Life Insurance Sector:

Life insurance companies raise funds broadly under three heads, viz., Life funds, Pension and General Annuity funds and Unit Linked Insurance Plans (ULIP). The Assets under Management (AUM) of the Indian life insurance companies from the year 2004-05 to 2013-14 are shown in Table 3.

Table 3 - Assets under Management of Life Insurance Companies in India

(Rupees in Crores)

Year	Assets under Management of Life Insurers in India				AUM of LIC	
	Life Funds	Pension and General Annuity Funds	ULIP Funds	Total	Total funds	% in Total Industry Funds
2004-05	366219.85	54704.63	7527.45	428451.93	393185	91.77
2005-06	397188.65 (8.46)	64073.91 (17.13)	25888.13 (243.92)	487150.69 (13.70)	443307 (12.75)	91.00
2006-07	465555.30 (17.21)	71574.70 (11.71)	67049.80 (159.00)	604179.80 (24.02)	521735 (7.08)	86.35
2007-08	541629.99 (16.34)	91261.86 (27.51)	133077.48 (98.48)	765969.33 (26.78)	635748 (21.85)	82.99
2008-09	629650.40 (16.25)	113951.62 (24.86)	172762.76 (29.82)	916364.78 (19.63)	762892 (19.99)	83.25
2009-10	731290.86 (16.14)	143626.93 (26.04)	337540.14 (95.37)	1212457.93 (32.31)	918247 (20.36)	75.73
2010-11	841074.55 (15.09)	189927.26 (32.23)	399115.76 (18.26)	1430117.56 (17.95)	1070276 (16.56)	74.84
2011-12	974620.33 (18.26)	236666.78 (32.54)	369971.79 (8.63)	1581258.90 (12.47)	1203818 (12.48)	76.13
2012-13	1119999.94 (17.28)	282386.76 (24.07)	342507.19 (6.88)	1744893.88 (11.44)	1348996 (12.06)	77.31
2013-14	1288224.97 (15.02)	337579.44 (19.55)	331661.16 (3.17)	1957465.57 (12.18)	1511133 (12.03)	77.20
Average	**735545.48 (15.56)**	**158575.40 (23.96)**	**218710.17 (73.73)**	**1112831.04 (18.94)**	**880933.70 (15.02)**	**81.66**
CAGR	**13.38%**	**19.96%**	**46.02%**	**16.41%**	**14.41%**	**---**

Source: IRDA handbook on Indian Insurance Statistics 2013 – 14 and LIC annual reports

**Figures in brackets indicate the percentage of change over the previous year.

An analysis of the table 3 shows that the assets under management by the life insurance sector in India have increased continuously for the period under study. The average assets under management for the period from 2004-05 to 2013-14 amounted to Rs.11,12,831.04 crores. The average share of LIC stood at Rs.8,80,933.70 crores representing an average of 81.66% of assets under management of the total life insurance sector are of LIC of India.

The total assets under management of the life insurance sector in India for the year ending 2004-05 were Rs. 4,28,451.93 crores of which LIC amount stood at Rs. 3,93,185.00 crores representing 91.77% to the total assets under management and the balance 8.23% was held by all the private life insurance companies.

The total assets under management by the life insurance sector increased form Rs.4,28,451.93 crores to Rs.19,57,465.57 crores for the ten years period from 2004-05 to 2013-14 with a compounded annual growth rate of 16.41%. The average total assets under management by the Indian life insurance sector for the ten years period from 2004-05 to 2013-14 is Rs.11,12,831.04 crores with an average increase of 18.94% per year.

The assets under management of LIC of India for the year ending 2004-05 stood at Rs.3,93,185.00 crores and the same increased to Rs.15,11,133.00 crores for the year ending 2014-15 with a compounded annual growth rate of 14.41% for the ten years period. The average assets under management by LIC of India for the ten year period is Rs.8,80,933.70 crores with an average increase of 15.02% per year. The market share of LIC of India in the total assets under management by the life insurance sector in India in the year 2004-05 was 91.77% and the same decreased to 77.20% for the year ending 2013-14 with an average market share of 81.66% for the ten-year period.

The recent ongoing reforms in India offer tremendous opportunities to Indian insurance sector. While liberalisation by itself does not guarantee growth, institutionalisation of liberalization, achieved through changes in the managerial mindset, can definitely produce the desired results. The Indian life insurance sector can emerge as one of the strongest players in the global financial market by investment in technology and modifying managerial practices.

Undoubtedly, life insurance sector have a lot of potential for growth in India. The companies have to create and market innovative products and formulate distinct marketing strategies. Product innovation and service quality will be the key determinants to success. The penetration of insurance products can be increased through investor education, providing policyholders oriented value added services and innovative distribution channels. The Indian life insurance sector has come a long way, but a lot more needs to be done.

Today, the Indian insurance sector can lay claim to have a world-class regulatory framework and the one with the ability and willingness to evolve as a global competitor. With a strong and proactive regulatory mechanism in place, the Indian insurance sector may be expected to score even higher against the parameters of sustained asset growth, transparency and regulatory compliance. The journey ahead for Indian insurance sector will be exciting and fruitful for investors, companies, regulators and all the stakeholders involved only if they address the issues of the customer education, penetration and providing competitive services.

References:

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