

A GLIMPSE INTO THE BASIC BUSINESS ASPECTS OF LIFE INSURANCE COMPANIES IN INDIA

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Abstract

Life insurance is a professional service which is characterized by high involvement of consumers, due to the importance of tailoring to specific needs, variability of products available, complexity involved in the policies and processes and ultimately the need to involve the consumer in every aspect of the transaction. Life insurance has, in recent times ceased to be only a 'protection' of 'legacy' for the family. But it has turned into an important investment outlet. In this context, this paper makes an attempt to make a glimpse in to the basic business aspects of the insurance companies in India

Introduction

The insurance sector, along with other elements of marketing, as well as financial infrastructure, has been and influenced the process of liberalization and globalization in India. The customer is the king in the market. Life insurance companies deal in intangible products. With the entry of private players, the competition is becoming severe. In order to satisfy the customers, every insurance company is trying to introduce innovative products.

India's economic development made it the most lucrative insurance market in the world. Before the year 1999, there was the monopoly of state run Life Insurance Corporation of India (LIC) dealing in life insurance. Today, there are a number of private life insurance companies. The competition from these companies is threatening the LIC. Since the liberalization of the industry the insurance industry, has never looked back Today it stands as one of the most competitive and promising industry in India.

Objective of the Study

The objective of the present study is to study the basic business aspects of insurance companies with reference to some functional variables such as market share, fresh business premium received, issue of new policies, total life premium received etc.

Hypotheses

For the purpose of this study, the following null hypotheses were framed: and the Mann-Whitney U test was applied to test them.

- There is no significant difference in the growth rate of fresh business premium received by public and private life insurance companies.
- There is no significant difference in the growth of number of new policies issued by public and private life insurance companies.

- There is no significant difference in the growth rate of total life insurance premium received among the public and private life insurance companies.

Table 1: Market Share

Financial Year	Public Insurance companies	Private Insurance companies
2002-03	97.99%	2.01%
2003-04	95.29%	4.71%
2004-05	90.67%	9.33%
2005-06	85.75%	14.25%
2006-07	81.92%	18.08%
2007-08	74.39%	55.61%
2008-09	70.92%	29.08%
2009-10	70.10%	29.90%
2010-11	69.78%	30.22%
2011-12	70.68%	29.32%
2012-13	72.70%	27.30%
2013-14	75.39%	24.61%

Source: Annual reports of IRDA, 2013-14.

The above table shows that the details of market share of public and private life insurance companies from 2002-2014. Market share of public life insurance companies has hovered around 69% to 75% in respect of public life insurance companies, whereas it has oscillated between 24% & 30%. In both the cases, the band interval is 6% only.

Table 2: Fresh Business Premium Received

(Rs. in crores)

Financial Year	Public Insurance Companies	Simple Growth Rate	Private Insurance Companies	Simple Growth Rate
2002-03	15976.76	-18.44%	965.69	259.65%
2003-04	17347.62	8.58%	2440.71	152.74%
2004-05	20653.06	19.05%	5564.57	127.99%
2005-06	28515.87	38.07%	10269.67	84.55%
2006-07	56223.56	97.17%	19425.65	88.84%
2007-08	59996.57	6.71%	33715.95	73.56%
2008-09	53179.08	-11.36%	34152.00	1.29%
2009-10	71521.90	34.49%	38372.12	12.36%
2010-11	87012.35	21.66%	39368.05	2.60%
2011-12	1862.25	5.92%	32079.92	18.55%
2012-13	76611.50	6.41%	30749.58	4.15%
2013-14	90808.79	18.53%	29510.87	4.03%

Source: Annual Report of IRDA, 2013-14.

From the above table, it is understood that public insurance companies have recorded simple growth rates in the study period, varying between 5.92% & 97.17%. The highest growth rate was witnessed in the year 2006 - 2007 and the lowest growth rate was witnessed in the year 2011 - 2012. Negative growth rate of 11.36% was witnessed during the year 2008 - 2009. On the other hand, private insurance companies have recorded remarkable growth rates in 2003 - 2004 and 2004 - 2005. Though it has declined marginally

during the period 2005 - 2006 to 2007 - 2008. More than 70% growth rate has been achieved in this regard.

Table 3: Number of New Policies Issued

(Rs. in lakhs)

Financial year	Public insurance companies	Simple Growth Rate	Private insurance companies	Simple Growth Rate
2002-03	245.46	96.75%	8.25	3.25%
2003-04	269.68	9.87%	16.59	101.05%
2004-05	239.78	-11.09%	22.33	34.62%
2005-06	315.91	31.75%	38.71	73.37%
2006-07	382.29	21.01%	79.22	104.64%
2007-08	376.13	-1.61%	132.62	67.40%
2008-09	359.13	-4.52%	150.11	13.19%
2009-10	388.63	8.21%	143.62	-4.32%
2010-11	370.38	4.70%	111.14	22.61%
2011-12	357.51	3.47%	84.42	24.04%
2012-13	367.82	2.88%	74.05	12.28%
2013-14	345.12	6.17%	63.60	14.11%

Source: Statistical Hand book of Insurance 2013-14.

Note: 2002- 2003 has been taken as the base year for calculating growth rates. In respect of public insurance companies, the number of new policies declined in the years 2004 -2005, 2007 - 2008 and 2008- 2009. But in all other years there was an increasing trend. More than 30% increase was witnessed in the year 2005 - 2006 while more than 20% increase was witnessed in the year 2006 - 2007 with regard to this aspect.

In respect of private insurance companies, the growth rate was exorbitant in the years 2003 - 2004 and 2006 - 2007. Decline in the growth rate was witnessed during the year 2009 - 2010 in regard to this aspect.

Table 4: Total Life Premium Received

(Rs. in crores)

Financial year	Public insurance companies	Simple Growth Rate	Private insurance companies	Simple Growth Rate
2002-03	54628.49	-	1119.06	-
2003-04	63533.43	16.30%	3120.33	178.83%
2004-05	75127.29	18.25%	7727.51	147.65%
2005-06	90792.22	20.85%	15083.54	95.19%
2006-07	127822.84	40.79%	28242.48	87.24%
2007-08	149789.99	17.19%	51561.42	82.57%
2008-09	157288.04	5.01%	64497.43	25.09%
2009-10	186077.31	18.30%	265450.37	19.69%
2010-11	203473.40	9.35%	88131.60	11.04%
2011-12	202889.28	0.29%	84182.83	4.52%
2012-13	208803.58	2.92%	78398.91	6.87%
2013-14	236942.30	13.48%	77340.90	1.35%

Source: Statistical Hand book of Insurance 2013-14.

From the above table, it is understood that more than 40% increase was experienced in the total life premium received in respect of public insurance companies. More than 10% increased was witnessed in the years 2003-2004, to 2007 -2008, 2009-2010 and 2013 - 2014.

The growth rate was more than 100% in the years 2003 - 2004 and 2004 - 2005 in respect of total life premium received. More than 90% increase was with used in the year 2005 - 2006, while the increase was more than 80% in the years 2006 - 2007 and 2007 - 2008.

Testing of Hypothesis

In order to know, whether there is any significant difference in the growth rates of public and private life insurance companies, in terms of fresh business premium received, number of new policies issued and total life insurance premium collected, Mann-Whitney-U-Test was applied and the results are presented below.

Table 5: Results of Mann Whitney-U-Test

Hypotheses	Particulars	Tabulated U value	Result
H ₀ 1	Fresh business premium	0.027	Accepted
H ₀ 2	Number of new policies issued	0.0435	Accepted
H ₀ 3	Total life insurance premium	0.002	Rejected

Source: Primary Data

H₀1: The tabulated probability for $n_1=8$, $n_2=8$ and $U'=13$ is 0.027, which is greater than 0.05(5% level of significance). Hence, the null hypothesis framed for this study is accepted. It means that there is no significant difference in the growth rates of fresh business premium received in public and private life insurance companies.

H₀2: The tabulated probability for $n_1=8$, $n_2=8$ and $U'=30$ is 0.435, which is greater than 0.05(5% level of significance). Hence, the null hypothesis framed for this study is accepted. It means that there is no significant difference in the growth rates of number of new policies issued by public and private life insurance companies.

H₀3: The tabulated probability for $n_1=8$, $n_2=8$ and $U'=3$ is 0.002, which is less than 0.05(5% level of significance). Hence, the null hypothesis framed for this study is rejected. It means that there is no significant difference in the growth rates of total life insurance premium among the public and private life insurance companies.

Conclusion

Life insurance today has become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. 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 have tried to increase their market share.

As there is no significant difference in the parameters taken for the study, both the private and public insurance companies are competing with each other, neck to neck they are causing a boost-up of in the Indian economy by gathering the surplus funds of general public. If their service quality is studied, it will be useful to have a comprehensive view of the contribution made by private and public insurance companies in India.

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