

PERFORMANCE OF INDIAN INSURANCE SECTOR WITH SPECIAL REFERENCE TO PRIVATE INSURANCE COMPANIES

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Introduction

Insurance companies are financial intermediaries as they collect and invest large amounts of premium. They offer protection to the policy holders, provide means for accumulating Savings, and channelize the funds to the government and other sectors. They are contractual saving agencies which receive regular premium without fail, a steady inflow of funds in the form of premiums or regular contribution to pension plans.

They are also in a position to predict, relatively accurately, when and what amounts of insurance or pension benefits have to be paid. Further, their liabilities in most cases are long term liabilities, for many life policies are held for 30 or 40 or 50 or even more years. As a result, liquidity is not a problem for them, and their major activity is in the field of long term investments. Since they offer life cover to the investors, the guaranteed rate of return specified in insurance policies is relatively low. Therefore, they do not need to seek high rates of returns on their investments. As a combined result of all this, investments of insurance companies have been largely in government bonds mortgages, State and local government claims and corporate bonds.

Insurance companies are active in the fields of life, health and general and they have begun to operate the pension schemes and mutual funds. Insurance business consists of spreading risks over time and sharing them between persons and organizations. The major part of insurance business is life insurance, the operations of which depend on the laws of mortality.

The distinction between life and general insurance business is that with regard to the former, the claim is fixed and certain, but in the case of the latter the claim is uncertain i.e., the amount of claim is variable and it is ascertainable only sometime after the event. Pension business is a specialized form of life assurance.

Objectives of the Study

- To assess the performance of public insurance companies
- To evaluate the progress made by the prominent new players in the Indian Insurance Sector

Performance of Public Insurance Companies

LIC and ITS Business in India

Life Insurance business is almost entirely in the hands of LIC. The post and telegraph department conducts some business in this area for its employees, but the volume of that business in relation to that of LIC, is negligible and declining. The LIC has diversified its activities considerably in the recent past by establishing LIC Housing Finance Limited, LIC Mutual Fund, Jeevan Bima Sahayog Asset Management Company and LIC (International).

A large number of insurance policies have been introduced and popularized by the LIC. Few basic types of such policies are term insurance, whole life insurance, endowment policies, annuity contracts, individual insurance, group insurance, pension plans, children's plans, and equity-linked plans. These policies are mostly specific to different income and age groups. Whole life policies charge a premium throughout one's life, while endowment policies are taken for a fixed period. The latter provide life cover and also carry an adequate return. The former also cover life and are intended to be long-term investments which cover risk rather than provide return. However, in order to serve different purposes, these types can be and have been combined in many ways to devise a large number of plans.

Over the years, the LIC has launched 37 new insurance plans, adding to the large portfolio it has started with. Today, it conducts its affairs from over 1,191 centres in the country, through 1,774 branches. The individual Insurance accounted for 52 per cent of the total new sum assured in 1994-95 and 1995-96 respectively.

Today, the LIC is one of the most important financial intermediaries in India. Savings of the household sector in the LIC investment media as a percentage of total household savings in the form of financial assets increased from 5.5 per cent in 1956-57 to 12.3 per cent in 1960-61; thereafter, it declined to 8 per cent in 1965-66; it again increased slightly to 9.8 per cent in 1970-71; it was about 7.0 per cent in 1988-89 and 10.8 per cent in 1995-96.

An evaluation of progress of life insurance business of the LIC of India after new economic reforms is clearly presented in Table-1, Table-2, Table-3 and Table-4.

Table - 1 Total Income of LIC of India as at 31st March

(Rs. in crore)

Year	Net Premium Income	Income from Investment	Miscellaneous	Total Income
2001	34208	18679	1112	53999
2002	48964	22695	1111	72770
2003	54602	25080	1306	80988
2004	63131	27216	2743	93089

2005	75083	33718	3545	112346
2006	90759	35479	5909	132147
2007	127782	40572	7172	175527
2008	149706	47999	9731	207436
2009	157187	56583	3505	217274
2010	185986	67198	8589	261773
2011	203358	77667	16156	297181
2012	202803	90267	15330	308400
2013	208590	103882	21243	333715
2014	236798	118097	22954	377849
2015	239483	135438	26461	401427

Sources: (Annual Reports of the LIC of India from 2001 to 2015)

Table - 2 Total Assets of LIC of India and its Growth Rate

(Rs. Crore)

Year	Total Assets	Growth Rate
2002	242660	30.45
2003	290340	19.73
2004	367360	26.44
2005	438079	19.25
2006	552447	26.11
2007	651883	18.00
2008	803820	23.31
2009	873551	8.67
2010	1152057	31.88
2011	1317416	14.35
2012	1414892	7.63
2013	1560482	10.06
2014	1762112	12.92
2015	2031116	15.27

Sources: (Annual Reports of LIC of India for 2002-2015)

Table - 3 New Business of LIC of India from Rural Area

Year	Number of Policies (lakh)	Sum Assured (crore)	Share in Total New Policies	Share in Total Sum Assured
2001	35.34	17956	18.18	14.59
2002	37.01	25462	16.94	13.65
2003	45.23	23548	18.90	13.37
2004	62.19	35652	22.79	17.85
2005	55.03	46037	22.97	25.18
2006	74.67	60972	23.65	21.21
2007	88.50	68497	23.16	22.60
2008	90.43	59694	21.67	24.06

2009	87.15	73355	24.28	18.81
2010	102.50	78895	26.39	18.43
2011	121.25	108948	32.76	23.17
2012	117.18	100052	32,80	19.66
2013	93.49	66190	25.44	12.86
2014	87.74	93236	25.45	16.59
2015	51.65	76625	18.33	25.65

Source: (Annual Reports of the LIC of India for the period 2001 to 2015)

Table- 4 Gross Premium income of Indian Life insurance industry

(in Crore)

Year	LIC of India	Private Sector	Total
2001	34892	6.45	34898
2002	49822	273	50094
2003	54629	1119	55748
2004	63533	3120	66654
2005	75127	7728	82855
2006	90792	15084	105876
2007	127823	28253	156076
2008	149790	51561	201351
2009	157288	64497	221785
2010	186077	79370	265447
2011	203473	88165	291639
2012	202889	84183	287072
2013	208804	78399	287202
2014	236942	77341	314283
2015	239668	88433	328101

Sources: (Annual Reports IRDA for the period 2001 to 2015)

Growth of General Insurance Companies

The General Insurance Corporation of India was set up by the Central Government under the General Insurance Business (Nationalization) Act, 1972. On January 1, the following years, the erstwhile 107 Indian and foreign insurers operating in the country, prior to nationalization, amalgamated and grouped themselves into four subsidiary companies of GIC: 1. National Insurance Company Limited. 2. New India Assurance Company Limited. 3. Oriental Insurance Company Limited. 4. United India Insurance Company Limited.

At present the direct general insurance business is done mostly by the subsidiaries of the GIC. The premium income of the GIC itself is obtained mainly through the obligatory reinsurance premium on a quota share basis from its subsidiaries on their direct business in India. Twenty per cent of the business of subsidiaries is ceded to the GIC. GIC's direct business is only in the form of aviation insurance.

Malhotra Mechanism and Irda Act

On the recommendation of the Malhotra Committee, the Insurance Regulatory Development Act (IRDA) was passed by the Parliament in 1993, with a view to activate an Insurance regulatory apparatus for proper monitoring and control of the Insurance industry. Further to this, the year 2000 saw the opening up of the Insurance sector to the private sector with the introduction of the Insurance Regulatory Development Authority (IRDA) Bill, as a part of the liberalization process. As per the current guidelines, the foreign direct investments allowed into this sector are restricted to 26 per cent.

Another important development in the year 2000 was the restricting of GIC by delinking it from its subsidiaries and converting them into independent Insurance Companies and the conversion of GIC into a national insurance. Following liberalization, competition in the insurance sector has intensified. Multinational insurers have entered the Indian market not only because of the opportunity that it presents but also because the businesses in their home markets are almost saturated. However, till date it is the public sector Insurers who are commanding a major share of the Indian market.

Performance of New Players in the Insurance Market

As a part of the liberalization process the market for insurance business was thrown open for private players in 2000 as a result many new corners entered in the market for between life and non-life business. The same has been listed out in the Table-5. The introduction of private players in the insurance sector has led to greater competition among all the players. As a result of this competition, the customers are presented with a plethora of choices in various categories. The customer service has improved and the private insurance players are increasingly eroding the market share of the public sector corporation as is evident from Table-6 & 7.

Table - 5 List of New Players in the Indian Insurance Market

Name of the new planners in the life insurance business	Name of the new players in the General insurance business
Allianz Bajaj	Royal Sundram
ING Vysya	Tata AIG
AMP Sanmar	Reliance General
SBI Life	IFFCO Tokio
Tata AIG	Bajaj Allianz
HDFC Standard	HDFC Chubb
ICICI Prudential	Cholamandalam
Birla Sunlife	ECGC
Aviva	
Om Kotak	
Max Nelevark	
Met Life	

Table - 6 Market Share of General Insurance Companies

Insurers	Market Share 2003-04 (%)	Market Share 2002-03 (%)
Tata AIG	1.60	1.27
	2.20	1.69
Reliance General	1.00	1.30
IFFCO Tokio	2.02	1.50
ICICI Lombard	3.14	1.51
Bajaj Allianz	2.96	2.03
HDFC Chubb	0.69	0.07
Cholamandalam	0.60	0.10
New India Assurance	24.99	27.50
National Insurance Co. Ltd	21.20	20.08
United India Insurance Co. Ltd	19.04	20.81
Oriental Insurance Co. Ltd	17.80	19.52
ECGC	2.76	2.63

Source: IRDA, Journal, May 2004

Table - 7 Market Share of Life Insurance Companies

Insurer	Market Share 2003-04 (%)	Market Share 2002-03 (%)
Allianz Bajaj	0.96	0.37
ING Vysya	0.30	0.10
AMP Sanmar	0.15	0.04
SBI Life	1.05	0.42
Tata AIG	0.96	0.31
HDFC Standard	1.12	0.76
ICICI Prudential	4.01	2.15
Birla Sunlife	2.40	0.77
Aviva	0.41	0.08
Om Kotak	0.68	0.21
Max Nelevark	0.70	0.40
Met Life	0.12	0.05
LIC	87.04	94.34

Source: IRDA Journal, May 2004

Business Performance of New Players

According to the provisional estimates made by IRDA, the life insurance industry underwrote first year premium of Rs. 18,710.15 crore during 2003-04, a 10.48 per cent increase over the previous years figure of Rs.16,934.80 crore. The share of private insurers increased to 12.96 per cent as against 5.66 per cent in the year 2002-03. Among the private insurance players, ICICI Prudential had the highest market share of 4.01 per cent followed by Birla Sun life with 2.40 per cent in 2004.

In the General Insurance sector, according to the provisional figures, released by the IRDA, the premium collection in 2003-04 was Rs. 16,120 crore, an increase of 13 per cent over the previous year. The accretion during the year was Rs. 1860 crore the public sector enterprises contributing Rs. 850 crore, the private players contributing Rs.940 crore and Rs.70 crore being contributed by ECGC. The share of private players increased from 9.46 per cent 2002-03 to 14.21 per cent in 2003-04. Among the private players ICICI Lombard Insurance Company with a market share of 3.14 per cent was the leading player in 2003-04, followed by Bajaj Allianz with a market share of 2.96 per cent.

The private players have increased their share in the market in both life and General Insurance categories. The Government companies have been in existence for a long time and have a better reach through their vast network of branches. In the case of LIC, although it is the market leader, the growth in the premium income was just two per cent in 2003-04 compared to the previous year. The private Insurance players meanwhile have clocked a double digit and in some case a triple digit growth in the premium income. The private players have adopted an aggressive marketing strategy to expand their reach. They have focused on agent training and emphasized on the need for educating the consumers on the diverse range of products available in the market.

The insurance agents perform the role of insurance advisors and act as financial planners for the insurance needs of the customers. The change has led to increased market penetration by the private players. The Government owned companies on the other hand have to gear up to face the competition from private entities. They have to improve the quality of their service and be more responsive to the customer needs.

Conclusion

With the new reforms since 1990's all sectors have recorded good growth in the economy. Insurance sector is no exception to this. Already the monopoly on monolith corporations (LIC and GIC) has been broken and the insurance sector. The statistics reveal that the new players have already made a dent in the market. The only option is to further liberalize the sector by removing the existing hurdles and facilitating a new era in the insurance sector in excess promising.

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