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LIFE INSURANCE INDUSTRY IN INDIA

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Abstract

Insurance industry contributes to the financial sector of an economy and also provides an important social security net in developing countries. The growth of the insurance sector in India has been phenomenal. The insurance industry has undergone a massive change over the last few years and the metamorphosis has been noteworthy. There are numerous private and government insurance companies in India that have become synonymous with the term insurance over the years. Offering a diversified product portfolio and excellent services the many insurance companies in India have managed to make their way into almost every Indian household.
Keywords: *Life Insurance, ULIP, Penetration, Gross Premium.*

Introduction

The history of life insurance in India started after the establishment of a British firm, Oriental Life Insurance Company at Calcutta in 1818 and Bombay Life Assurance Company in 1923. Before the establishment of Bombay Mutual Life Assurance Society (the Indian insurance company) in 1871, the Indian lives were treated as sub-standard and charged extra premium of 15 to 20 percent. The Bombay Mutual Assurance Society was covering Indian lives at normal rates. The Madras Equitable Life Insurance Society in 1874, Bharat Insurance Company in 1896, Hindustan Co-operative Insurance Company (Calcutta) in 1907; the Indian Mercantile, General Assurance and Swadeshi Life (Bombay Life) were also established during the same period. To regulate the life insurance business, the government passed the Indian Life Assurance Companies Act in 1912.

A Historical Review of Indian Insurance Industry

In 1818, a British company called Oriental Life Insurance setup the first insurance firm in India followed by the Bombay Assurance Company in 1823 and the Madras Equitable Life Insurance Society in 1829. Though all this companies were operating in India but insuring the life of European living in India only. Later some of the companies started providing insurance to Indians with approximately 20% higher premium than Europeans as Indians were treated as “substandard”. Substandard in insurance parlance refers to lives with physical disability. Bombay Mutual Life Assurance Society was the first company established in 1871 which started selling policies to Indians with “fair value”. Insurance business was subjected to Indian company act 1866, without any specific regulation. In 1905, the slogan “Be Indian-Buy Indian” declared by Swadashi Movement gave birth to dozens of indigenous life insurance and provident fund companies. In 1937, the Government of India setup a consultative committee and finally first comprehensive ‘insurance act’ was passed in 1938.

Changing Competitive Environment

With the opening of insurance sector in India, the share of private insurer was very less. As shown in table-1, total share of private insurer was just 2% in 2001-02. It was because of any reason which includes credibility on private players.

Product Innovations

In fifties and sixties, the life insurance business was concentrated in urban areas and was confined only to the higher class of the society. Through the LIC act 1956, the LIC was formed with the capital of 50 million. One of the basic objectives of setting up the LIC was to extend the reach of insurance cover and make it available to the lower segment of the society. LIC observed minimum growth in 1960s and 1970s. This slow growth were caused by the factors like poor infrastructure, low saving, low investment, high illiteracy etc. however the positive change in industrialization, infrastructure, capital formation, saving rate resulted in tremendous growth of LIC. Still the penetration of insurance sector was very low. A key catalyst in the Indian insurance market growth has been the entry of private players in 2000-01. With the entrance of private players and foreign collaborations, penetration of insurance sector in India has gone up from 1.02% in 1999-00 to 4 % of GDP in 2007-08. Life insurance business in India grew by 14.2 per cent in US Dollar terms in 2007-08.

Changing trends in Life Insurance Policy

Along with the other objectives of insurance like financial security, tax benefits etc. one of the major objectives is saving and investment. Traditional life insurance policies like endowment were becoming unattractive and not meeting the aspirations of the policyholders as the policyholder found that the sum assured guaranteed on maturity had really depreciated in real value because of the depreciation in the value of money. The investor was no longer content with the so called security of capital provided under a policy of life insurance and started showing a preference for higher rate of return on his investments as also for capital appreciation. It was, therefore found necessary for the insurance companies to think of a method whereby the expectation of the policyholders could be satisfied. The objective of providing a hedge against the inflation through a contract of insurance pushed insurer to link the insurance policy with market and thus the industry observed the beginning of Unit linked insurance policy (ULIP).

Unit Linked vs non Linked Insurance Plans

There are so many advantages that ULIPs have over traditional policies. Some of them have been described in table-1.

Table 1

Features	ULIPs	Traditional Policies
Description	Insurer allows policy holder to direct part of their premiums into different type of funds like equity, dept, money market, hybrid etc. and risk of investment is borne by policy holder	Insurer takes decision and usually invests into low risk return option. insurer also offers guaranteed maturity proceeds along with declared bonuses
Flexibility of investment	Policy allowed choosing their investment avenues as per their risk profile.	Policy holders are not allowed to choose avenues their investment
Transparency	Policy holder can track their portfolio. They are also informed about the value and number of fund units they hold.	Individual can not track their portfolio.
Maturity benefit payouts	At the time of maturity, policy holder redeems the unit collected at the then prevailing unit prices. Some plan also offers royalty or additional units annually or at the time of maturity.	At the time of maturity policy holder get the sum assured plus bonuses(if applicable)
Partial withdrawal	Subjected to some condition, policy holders are allowed to withdraw from their fund.	Policy holders are not allowed to withdraw part of their funds. Instead, some policy provides facility of loan against the investment.
Switching options	Available(with some charges)	Not available
Charges structures	Charges are specified under various heads	Charges are not specified
Single premium top up	Allowed	Not allowed

The flexibility, transparency, liquidity and fund options available with ULIPs made it the preferred choice of customers and gradually it changed the trend of insurance policy. This fact can easily be seen in table -6 showing recent three years trends in sale of ULIPs and traditional policies.

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. Move from non-linked to unit liked insurance policies is one of the major positive changes in Indian life insurance sector. Similarly, opening on the sector for private insurer broke the monopoly of LIC and bring in a tough competition among the players. This completion 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. Development of products including special group policies to cater to different categories should be a priority, especially in rural areas. The life insurers should conduct more extensive market research before introducing insurance products targeted at specific segments of the population so that insurance can become more meaningful and affordable. By adopting appropriate strategy along with proper government support and able guidance of IRDA, India will certainly become the new insurance giant in near future.

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