The Changing Landscape of Indian Life Insurance Sector: A Comparative Study of LIC & Private Insurers.

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Abstract

Many a people associate life insurance product with death and not as a tool of investment. Insurance sector was opened to publicize insurance product as a sign of investment. The insurance sector, along with other elements of marketing, as well as financial infrastructure, have been touched and influenced by the process of liberalization and globalization in India. Around 1993, the Government of India decided to undertake structural changes in the insurance sector and took steps to open up this sector for private participation. Consequently, on December 7, 1999 parliament passed the Insurance Regulatory and Development Authority (IRDA) Act which paved the way for granting licenses to private sector insurance companies. With the entry of private players, the competition is becoming intense. In order to satisfy the customers, every company is trying to implement new creations and innovative product characteristics to attract customers. After privatization of the insurance sector more than twenty life insurance companies have entered the business. Therefore, monopoly of LIC of India has come to an end and the Corporation has to perform in a competitive environment. In this research paper, an attempt is made to analyze the performance of public and private life insurance companies in India. The present study aims to examine the growth of LIC of India in the competitive scenario.

Key Words: LIC, IRDA, ICICI, Premium, Claim

INTRODUCTION

India's growing economy, coupled with a significant rise in the young working population, has potential for development of the life insurance sector. This is in addition to the large population that remains uninsured. A well developed and evolved insurance sector is a boon for economic development of a country. It provides long-term funds for infrastructure development and concurrently strengthens the risk-taking ability of the country. LIC has for a long period of time has enjoyed dominant market of life insurance and the fact cannot be denied that LIC has a pre accomplished market leadership which makes it difficult for the new players to compete. While the new players struggle to increase their market in India, LIC continue to leverage advantage of its old establishment and government support for maintaining its growth. Life Insurance is the fastest growing sector in India since 2000 as Government allowed Private players and FDI up to 26%. In 1993 the Government of India appointed RN Malhotra Committee to lay down a road map for privatization of the life insurance sector. While the committee submitted its report in

1994, it took another six years before the enabling legislation was passed in the year 2000, legislation amending the *Insurance Act* of 1938. The same year when the newly appointed insurance regulator - Insurance Regulatory and Development Authority (IRDA) --started issuing licenses to private life insurers. The total life insurance market can be judged in terms of 2 parameters- premium collected and number of new policies underwritten. It can be seen that market share of more than 70% is with LIC. Life insurance policy in India is growing rapidly ever since the sector opened up for the private and foreign players.

Today, there are 24 private life insurance companies are available. The competition LIC started facing from these companies were threatening to the existence of LIC. Since the liberalization of the industry the insurance industry has never looked back and today stand as the one of the most competitive and exploring industry in India. Unlike several industries like telecommunication and oil industry, insurance is not a high capital cost industry. This industry is build up on goodwill and on access of distribution network.

BRIEF HISTORY OF INSURANCE

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. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttylal, the foreign life insurance companies started insuring Indian lives. But Indian lives were being treated as sub-standard lives and heavy extra premiums were being charged on them. Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period. Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage.

The first two decades of the twentieth century saw lot of growth in insurance business. From 44 companies with total business-in-force as Rs.22.44 crore, it rose to 176 companies with total business-in-force as Rs.298 crore in 1938. During the mushrooming of insurance companies many financially unsound concerns were also floated which failed miserably. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business. The demand for nationalization of life insurance industry was made repeatedly in the past but it gathered momentum in 1944 when a bill to amend the Life Insurance Act 1938 was introduced in the

Legislative Assembly, the ownership too by means of a comprehensive bill. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost. In Oct. 2000, IRDA (Insurance Regulatory and Development Authority) issued license paper to three companies, which are HDFC Life Standard, Sundaram Royal Alliance Insurance Company and Reliance General Insurance.At the same time “Principal approval” was given to Max New York Life, ICICI Prudential Life Insurance Company and IFFCO Tokio General Insurance Company. Today total 25 life insurance companies including one public sector are successfully operating in India. All life insurance companies in India have to comply with the strict regulations laid out by Insurance Regulatory and Development Authority of India (IRDA).

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 in the 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.

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 insurers during last 11 years.

2. To observe the position of LIC in Indian Insurance Industry.

HYPOTHESIS 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 market share among public and private life insurance companies.**

RESEARCH METHODOLOGY

Scope of the Study

The study includes the number of policies issued by LIC, private sector and the industry; the market share of LIC and private players. Besides, total life insurance premium received by LIC and other players has also been covered in the study.

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 11 years i.e. 2002-2003 to 2012-2013.

Statistical Tool Employed

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

DATA ANALYSIS AND INTERPRETATION

Table:1 Number of Policies Issued: Life Insurers (in Lakhs)

Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
LIC	245.46 (96.75)	269.68 (94.21)	239.78 (91.48)	315.91 (89.08)	382.29 (82.83)	376.12 (73.93)	359.13 (70.52)	388.63 (73.02)	370.38 (76.92)	357.51 (80.89)	367.82 (83.24)
Private	8.25 (3.25)	16.59 (5.79)	22.33 (8.52)	38.71 (10.92)	79.22 (17.17)	132.62 (26.07)	150.1 (29.48)	143.62 (26.98)	111.14 (23.08)	84.42 (19.11)	74.05 (16.76)
Total	253.71	286.27	262.11	354.62	461.51	508.74	509.23	532.25	481.52	441.93	441.87

Table:2 Number of Policies Issued: Life Insurers (in Lakhs)

Year	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
LIC	09.87	-11.09	31.75	21.01	-1.61	-4.52	8.21	-4.7	-3.47	2.88
Private	101.04	34.62	75.37	104.64	67.4	13.19	-4.32	-22.61	-24.04	-12.28
Total	12.8	-8.44	35.29	30.14	10.23	0.09	4.52	-9.53	-8.22	-0.01

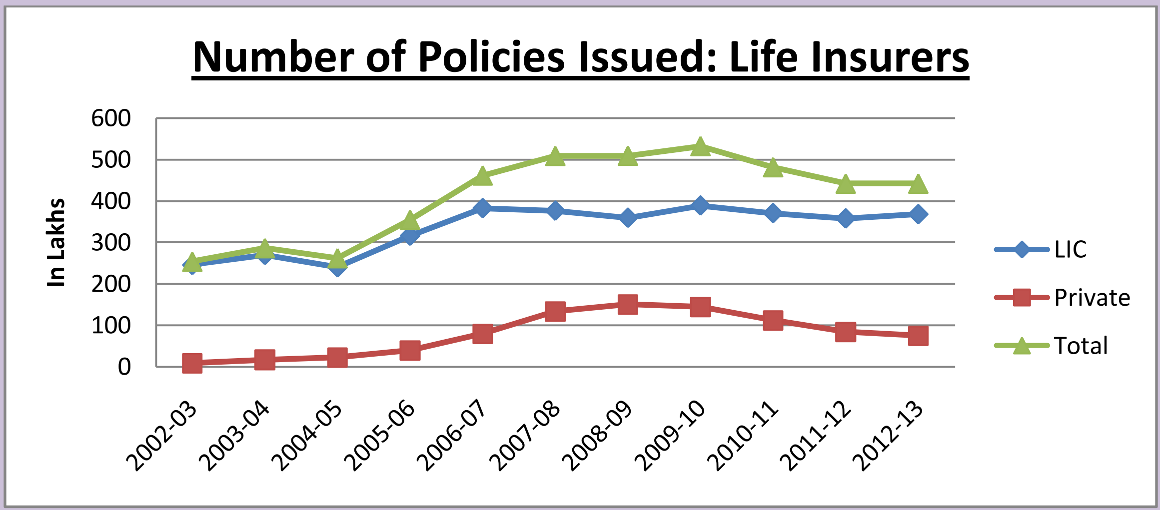

Table NO. 1, 2 depicts the the total number of new policies issued by the life insurers. During 2012-13 Life insurance industry issued 441.87 lakh new policies , out of which LIC issued 367.82 lakh policies (i.e.83.24% of the total policies issued)and private insurers issued only 74.08 lakh policies (i.e 16.76%).LIC register a growth of 2.88% in 2012-13 as compared to previous year which shows 3.47% decline in no. of new policies issued. As far as private sector is concerned, it continued the previous year experience of significant decline and reported a dip of 12.28% (24.04% decline in 2011-12) in the no. of new policies issued. Over the study period the growth rate of LIC in the no. of new policies issued is greater than private players. It is also observed that private Insurers are also able to maintain a satisfactory position in this regard. On an average the private sector shows an uptrend. As a whole the insurance industry shows an increasing trend. The figure no. 1 also supports the said results.

Table 3: Market Share of Life Insurers in total Market

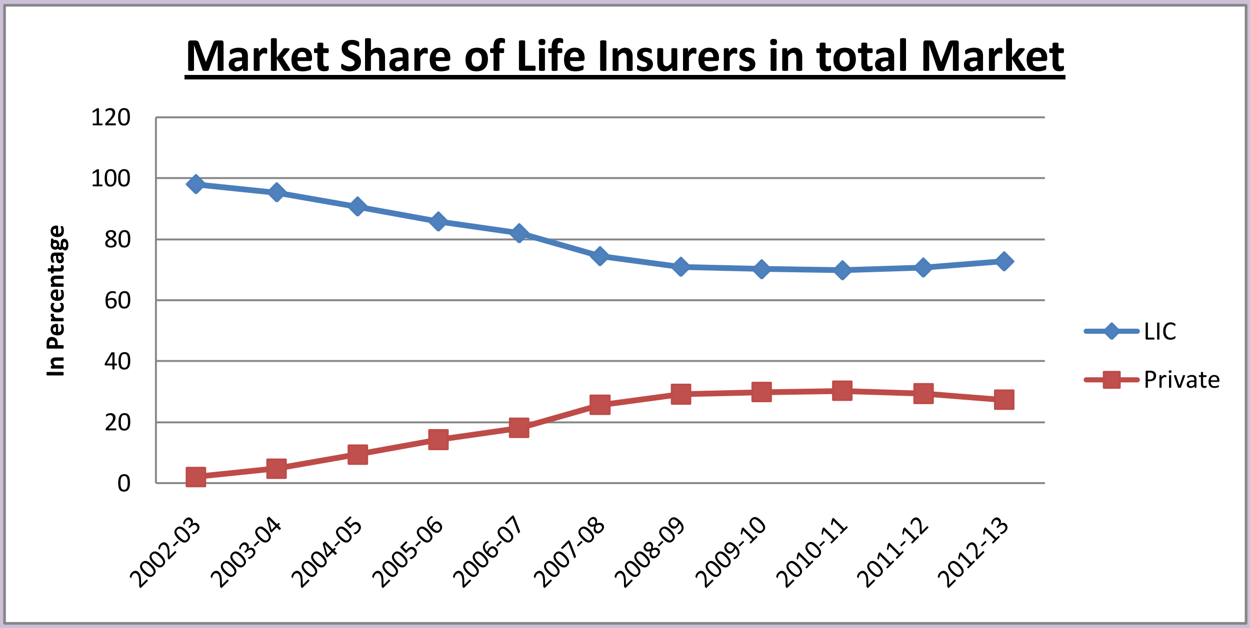

Table No.3 highlights the market share of LIC and Private Insurers. On the basis of total premium income, the market share of LIC increased marginally from 70.68% in 2011-12 to 72.70% in 2012-13. Whereas the market share of private sector has declined marginally from 29.32% in 2011-12 to 27.30% in 2012-13. In the time span of period under study the market share of LIC declined, whereas the position of private players is better than LIC. The market share of Private Insurers shows increasing trend and there is a slightly decline in the market share of LIC. The position of Private Insurers in terms of market share is continuously improving.

Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
LIC	54628.49 (9.65)	63533.43 (16.30)	75127.29 (18.25)	90792.22 (20.85)	127822.84 (40.79)	149789.99 (17.19)	157288.04 (5.01)	186077.31 (18.30)	203473.4 (9.35)	202889.28 (-0.29)	208803.58 (2.92)
Private	1119.06 (310.59)	3120.33 (178.83)	7727.51 (147.65)	15083.54 (95.19)	28253 (87.31)	51561.42 (82.50)	64497.43 (25.09)	79369.94 (23.06)	88165.24 (11.08)	84182.83 (-4.52)	78398.91 (-6.87)
Total	55747.55 (11.28)	66653.75 (19.56)	82854.8 (24.31)	105875.56 (27.78)	156075.84 (47.41)	201351.41 (29.01)	221785.47 (10.15)	265447.25 (19.69)	291638.64 (9.87)	287072.11 (-1.57)	287202.49 (0.05)

Table 4: Total Life Insurance Premium (in Rs. Crore)

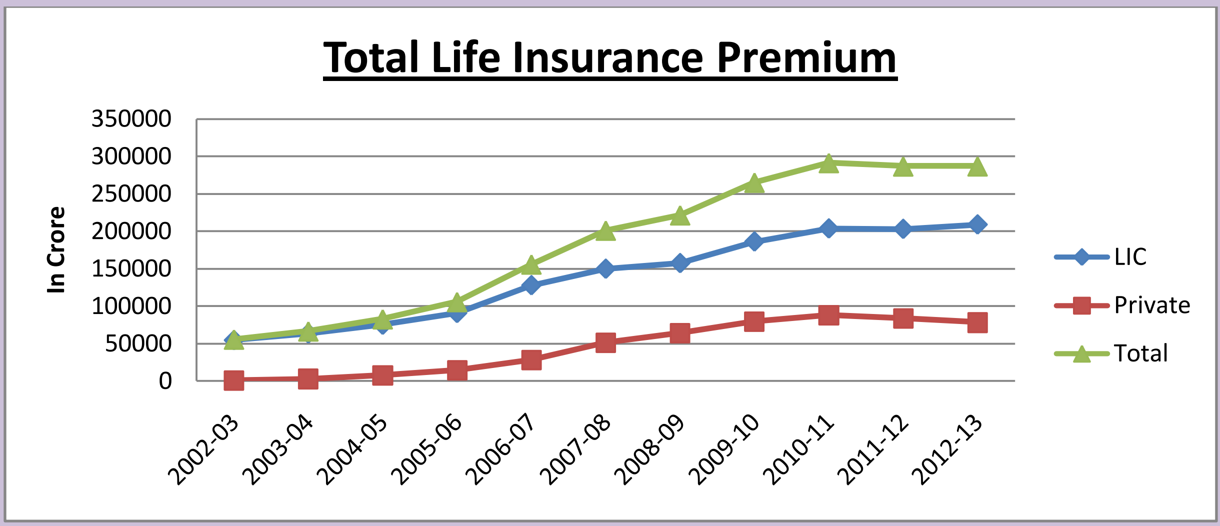

Table No. 4 depicts the total Life Insurance Premium collected by Life Insurance Industry. The LIC collected Rs.208803.58 crore as insurance premium in 2012-13 to Rs. 202889.28 crore in 2011-12 that shows 2.92% growth over the previous year. The private Players are able to collect only Rs. 78398.91 crore as compared to Rs. 84182.83 crore which shows -6.87% growth over the previous year. The position of LIC is better than Private Insurers over the period under study.

RESULTS OF INDEPENDENT SAMPLE T-TEST

In order to evaluate the hypothesis that whether there is a statistically significant difference between growth of number of policies issued among public and private life insurance companies, no significant difference in the growth rate of total life insurance premium among public and private life insurance companies and no significant difference in the

Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
LIC	97.99	95.32	90.67	85.75	81.9	74.39	70.92	70.1	69.77	70.68	72.7
Private	2.01	4.68	9.33	14.25	18.1	25.61	29.08	29.9	30.23	29.32	27.3
Total	100	100	100	100	100	100	100	100	100	100	100

market share among public and private life insurance companies, independent sample t-test has been used.

For evaluating the difference in the mean of policies issued by LIC and private players, independent t-test shows the following results:

Group Statistics

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Policies	Equal variances assumed	.289	.597	11.051	20	.000	255.6055	23.12917	207.3588	303.8520
	Equal variances			11.051	19.857	.000	255.6055	23.12917	207.3365	303.8744

Independent Samples Test

not assumed									

The results shown in above table reflect that the mean of policies issued by LIC and Private players is 333.8827 and 78.2773 respectively. The mean values show that LIC is having a better position in terms of number of policies issued as compared to Private players. These results support the previous findings as shown in table 1 and 2. Now it is to be evaluated that whether such difference in mean is statistically significant or not. The results of independent sample test (with equal variances assumed) shows that t value is 11.051 which is statistically significant at 5% level (sig value= .000), that means there is a statistically significant difference between growth of number of policies issued among public and private life insurance companies.

Group Statistics

	player	N	Mean	Std. Deviation	Std. Error Mean
Premium	lic	11	138202.3518	59256.85349	17866.61357
	private	11	45589.0191	35155.13684	10599.67258

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means					
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference

									Lower	Upper
Premium	Equal variances assumed	4.962	.038	4.458	20	.000	92613.33	20774.237	49279.03	135947.63
	Equal variances not assumed			4.458	16.263	.000	92613.33	20774.237	48631.81	136594.85

The results shown in above table highlight the fact that the mean of premium received by LIC and Private players is 138202.35 and 45589.0191 respectively. The mean values show that LIC is having a better position in terms of premium received as compared to Private players. These results support the previous findings as shown in table 4. Now it is to be evaluated that whether such difference in mean is statistically significant or not. The results of independent sample test shows that t value is 4.458 which is statistically significant at 5% level (sig value= .000), that means there is a statistically significant difference in the growth rate of total life insurance premium among public and private life insurance companies.

Group Statistics

	player	N	Mean	Std. Deviation	Std. Error Mean
market share	lic	11	80.0173	10.79627	3.25520
	private	11	19.9827	10.79627	3.25520

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
market share	Equal variances assumed	.000	1.000	13.041	20	.000	60.0345	4.603	50.43	69.637
	Equal variances not assumed			13.041	20.000	.000	60.0345	4.603	50.43172	69.637

The results shown in above table highlight the fact that the mean of market share of LIC and Private players in last 11 years i.e. from 2002-03 to 2012-13 is 80.0173 and 19.9827 respectively. The mean values show that LIC is having a better market share on average basis as compared to Private players. These results support the previous findings as shown in table 3. Now in order to evaluate whether such difference in mean is statistically significant or not, independent sample t-test is applied. The results of independent sample test shows that t value is 13.041 which is statistically significant at 5% level (sig value= .000), that means there is a statistically significant difference in the market share among public and private life insurance companies.

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 agreat

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 in near future.

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