

Changing Trends of Insurance Industry in India: Special Reference to Life Insurance Sector

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Abstract

Life of a human being is full of risk. Risk means where the outcome is uncertain and there is a possibility of loss. To manage and face such risk to human life, life insurance is the best technique. It is a tool which safeguard's an individual life with benefits. The insurance industry has undergone through enormous changes over the last few years. Innovative plans with modernization are the outcome of such changes. There are numerous private and government insurance companies in India Offering a varied product portfolio and excellent services and are able to managed their way into almost every Indian household.

Keywords: Insurance, Modernization, Portfolio, Services, Risk

Insurance

Insurance is a financial arrangement that redistributes the costs of unexpected losses, It involves the transfer of loss to an Insurance pool which is formed by the collection of premiums paid by the interested group/partner and then from this pool at the time of contingencies cost of losses are redistributed among members of the pool to recover their loss. A common man understands insurance as a risk protection measure, that is it protects and individual against monetary loss from any kind of peril like fire, floods, break downs, lighting, earthquake etc. We can define the term "insurance" in both financial as well as in legal terms. The financial definition focus, It is a contract between two parties where in one party called insurer and another called insured. An Insurer is a person or a company who undertaken to compensate another party for uncertain event of loss on the basis of payment of an aforesaid amount called premium. And the party person who get's compensation by the insurer called insured.

Insurance Industry in India - Since 1992

Prior to year 2000 the insurance industry was monopolized with the presence of LIC in life insurance sector and GIC in the non-life insurance sector. In april 1993 the government of India set up the insurance returns committee under the chairmanship of Mr. R.N. Malhotra, former finance secretary and RBI governor to evaluate the Indian insurance industry and to recommend its future direction. On 7thjan, 1994 the committee submitted its report to union finance minister with the following recommendations:

- Government stake in the insurance companies to be brought down to 50 %

- Private companies should be allowed to enter in the industry with the minimum paid up capital of Rs. 100 crore.
- Changes should be made in the insurance act.
- Mandatory investments of LIC Life Fund in government securities to be reduced from 75% to 50%.
- Foreign companies to be allowed only in combination with an Indian partner.
- To provide greater autonomy to insurance companies, the committee recommended setting up of set up of an independent regulatory authority.
- GIC and its subsidiaries are not to hold more than 5% in any company.
- Popularization of pension schemes in rural areas.
- Rapid computerization of branches
- Payment of interest on delays in settlement of claims beyond 30 days.
- Use of revised mortality tables by LIC and revision of premiums after every 10 years.
- Issue of long-term unit linked insurance plans.

Life Insurance

Life Insurance, usually referred to as “life assurance” which insures the insured against the happening of certain event that’s death through the time when it may happen is uncertain. The Life Insurance contract is also called “contingent contracts” as the loss of life cannot be compensated and only a specified sum of money is paid if the insured dies.

Life Insurance in India

The history of insurance in our country is somewhat dark. The earliest reference of life insurance was available in the days of East India Company, when the policies were taken only by the British officers. The British ruling Company started life insurance business in India, by issuing policies exclusively on the lives of European soldiers and civilians. The policy was issued by British officers in sterling currency. Oriental Life Assurance Company was the first foreign insurance company established in India in 1818. Foreigners, orphans and widows were become subject matter for the oriental company. The company started accepting the Indians in 1934 due to the efforts of Babu Muttylai seal. ‘Bombay Life’, a company had issued short term policies for 2-3 years in 1823. Raja Ram Mohan Roy, the man who pleaded for protecting widows through government insurance ‘Bombay Mutual Life Assurance Society was established by some prominent citizens of Bombay in 1871. European merchant also started ‘Bombay Insurance Society’ in 1893 by voluntary efforts. Mr. Curstjee Furdoonju was the first insured person of India. This policy was insured in 1848 by royal Insurance which started in 1845. It was the beginning of the Indian insurance venture.

During the period from 1870 to 1900, a large number of Indian companies were formed under The Indian Companies Act, 1866. Though, the business was confined to a few communities and occupations only. During the period 1912-1930, the insurance business witnesses a setback.

The government of India passes Insurance Act, 1938 the Act applies to all kind of insurance business till date by instituting necessary amendments from time to time.

The life insurance industry was nationalized in the year 1956 and the "LIFE INSURANCE CORPORATION OF INDIA" came into existence on the 1st day of September 1956. To remember this historic event insurance week is celebrated from 1st to 7th September every year thereafter. The objectives of nationalization were defined as conducting the business with utmost economy in true sense trusteeship, to charge premium no higher than narrated by strict actuarial consideration, and to invest the fund for obtaining maximum yield consistent with safety of capital and render prompt and efficient services to the policy holders, etc.

Present Scenario of Life Insurance Sector in India

Registered Insurers in India

At end of December 2014, there are fifty-three insurance companies operating in India; of which twenty-four are in the life insurance business and another twenty-eight are in general insurance business. In addition, GIC is the sole national re-insurer. Of the fifty-three companies presently in operations, eight are in the public sector: two specialized insurers, namely ECGC and AIC, one in life insurance, six in general insurance and one in re-insurance. The remaining forty four companies are in the private sector.

Table 1 : Registered Insurance in India as on 4th December 2014

Type of Business	Public	Private	Total
Life Insurance	1	23	24
General Insurance	*6	22	28
Re-Insurance	1	0	1
Total	8	44	53

*includes specialized insurance companies ECGC and AIC.

Source: Self compilation using *Handbook on Indian Insurance Statistics*, IRDA (2010-11).

There are 24 life insurance companies in India. Out of which Life Insurance Corporation of India (LIC) is the only insurance company which belongs to Public Sector, the rest all lies under private insurance sector. Most of the private players have tied up with international insurance biggies for their life insurance foray. The life insurance sector in India has seen a lot of action in the last decade with a lot of new players entering the market.

Table 2 : Insurance Companies Operating In India Life Insurers

	Public Sector		Private Sector
1.	Life Insurance Corporation of India	1.	AegonReligare Life Insurance Co. Ltd
		2.	Aviva Life Insurance Co. Ltd
		3.	Bajaj Allianz Life Insurance Co. Ltd
		4.	Bharti AXA Life Insurance Co. Ltd
		5.	Birla Sun Life Insurance Co. Ltd.
		6.	Canara HSBC OBC Life Insurance Co. Ltd
		7.	DLF Pramerica Life Insurance Co. Ltd.
		8.	Edelweiss Tokio Life Insurance Co. Ltd.
		9.	Future Generali Life Insurance Co. Ltd.
		10.	HDFC Standard Life Insurance Co. Ltd.
		11.	ICICI Prudential Life Insurance Co. Ltd.
		12.	IDBI Federal Life Insurance Co. Ltd.
		13.	ING Vysya Life Insurance Co. Ltd.
		14.	IndiaFirst Life Insurance Co. Ltd.
		15.	Kotak Mahindra Old Mutual Life Insurance Co. Ltd.
		16.	Max New York Life Insurance Co. Ltd.
		17.	MetLife India Insurance Co. Ltd.
		18.	Reliance Life Insurance Co. Ltd.
		19.	Sahara India Life Insurance Co. Ltd.
		20.	SBI Life Insurance Co. Ltd.
		21.	Shriram Life Insurance Co. Ltd.
		22.	Star Union Dai-ichi Life Insurance Co. Ltd.
		23.	TATA AIG Life Insurance Co. Ltd.

Table 3 : Number of Life Insurance Offices

Insurer	2007	2008	2009	2010	2011	2012	2013	2014
Private	3072 (57.7)	6391 (71.71)	8785 (74.5)	8768 (72.96)	8175 (70.81)	7712	6759	6193
LIC	2301 (42.83)	2522 (28.29)	3030 (25.65)	3250 (27.04)	3371 (29.19)	3455	3526	4839
Total	5373 (100.00)	8913 (100.00)	11815 (100.00)	12018 (100.00)	11546 (100.00)	11167 (100.0)	10285	11032

(As on 31st March)

Source: IRDA Annual reports(2013-14), various issues

The above table clearly shows that there is a gradual increase in number of branches in public sector in the last 6 years. And the private sector shows manifold increase in the first 2 years but from 2009 the pace of development becomes slow. Now there are 23 insurance companies according to table 1 in private sector yet the number of offices is not so much, on the contrary LIC alone has maintained a good number of branches in the respective sector. The decreasing trend in number of life offices from 2010 had reverted in 2013-14. Their number

have increased from 10285(in 2013) to 11032 in 2014. In comparison, private insurers had closed 732 offices and opened only 166 offices in 2013-14; which clearly shows a net reduction of 566 offices in private sector. As can be seen, LIC has established 1313 new offices and not closed a single one therefore this has resulted in a net increase of 1313 offices in the public sector.

Insurance Penetration and Density in India

Table 4 : Insurance Penetration and Density in India Life Insurance Sector

Year	Density (US D)	Penetration (per cent)
2005	18.3	2.53
2006	33.2	4.10
2007	40.4	4.00
2008	41.2	4.00
2009	47.7	4.60
2010	55.7	4.40
2011	49.0	3.40
2012	42.7	3.17
2013	41.0	3.10

Source: IRDA Annual reports(2013-14), various issues

The first decade of Liberalization has reported consistent rise in insurance penetration from 2.53 percent in 2005 to 4.60 per cent in 2009. But after 2009 the level of penetration has been declining and it reaches to 3.10 per cent in 2013. Even insurance density has increased from USD 18.3 in the year 2005 to USD 55.7 in 2010. During the year 2013, the insurance density reached USD 41.0.

India has achieved a commendable performance in insurance density since insurance sector opened for private players. Insurance density had gone up from US D 18.3 in 2005 to US D 41.0 in 2013.

Table 5 : Life Insurers: Number of New Policies Issued (in lakhs)

Insurers	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08
LIC	345.12 (-6.17)	367.82 (2.88)	357.51 (-3.47)	370.38 (-4.70)	388.63 (8.21)	359.13 (-4.52)	376.13 (-1.61)
Private Sector	63.60 (-14.11)	74.05 (-12.28)	84.42 (-24.04)	111.14 (22.61)	143.62 (-4.32)	150.11 (13.19)	132.62 (67.40)
Total	408.72 (-7.50)	441.87 (-0.01)	441.93 (-8.22)	481.52 (-9.53)	532.25 (4.52)	509.23 (0.10)	508.74 (10.23)

Note: Figure in bracket indicates the growth over the previous year in per cent.

Source: IRDA Annual reports, various issues

A fluctuating trend can be evident from the above table. The performance of public sector insurance in terms of policies issued is more significant than that of the private sector.

Conclusion

Indian Life insurance sector is earning a remarkable growth. It is one of the sectors that is observing good growth in the scenario where nearly all the industries in the world are trying hard for survival due to rapid economic changes. The changing trends play a great role and support Indian insurance industry to cope with the varying economic environment. On the other hand opening up of insurance sector for private insurers is another great achievement which not only broke the monopoly of LIC but also throws a tough competition in the insurance market which results into innovation in products, pricing, distribution channels, and marketing in the industry. Thus the sector has a great potential to grow. With this the study concludes that by adopting appropriate strategy Indian insurance industry will certainly become the new insurance giant in future.

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