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GROWTH AND PENETRATION OF LIFE INSURANCE INDUSTRY IN INDIA

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ABSTRACT

The paper aimed to study penetration and growth of insurance industry. The sector was recorded consistent growth after liberalization but during last four years negative growth rate is recorded. Industry has seen stable growth rate in premium in all years except 2011-12, 2012-13 sector overall penetration and density is only USD 53.2. Policies sold by individual agents in overall industry are stable and for the period of 2012-13, life insurers issued 441.87 lakh new policies. In 2008 private sector has opened many offices, LIC open many in number during 2009.

KEY WORDS

Growth, Insurance, Investment, Policies and Potentiality.

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INTRODUCTION

The Indian insurance industry seems to be in a state of instability after a decade of strong growth, the Indian insurance industry is currently facing severe headwinds due to slow growth, rising costs, deteriorating distribution structure and stalled reforms. Many challenges insurance sector facing now a day such as products strategy and design, cost, taxation, distribution, prospects and challenges of various channels, compensation, customer service and Governance and regulatory issues.

In life insurance business, India is ranked 10th among 88 countries and as at end-September 2013, there are fifty-two insurance companies operating in India;

of which twenty four are in the life insurance business and twenty-seven are in non-life insurance business. In addition, General Insurance Corporation (GIC) is the sole national reinsurer. The life insurance industry recorded a premium income of `2,87,202 crore during 2012-13 as against `2,87,072 crore in the previous financial year. As on 31st March, 2013, the accumulated total amount of investments held by the insurance sector was `18,67,886 crore and industry reported net profit of `6948 crore as against 5974 crore in 2011-12. Health Insurance continues to be one of the rapidly growing sectors in the Indian insurance industry.

Globally, the share of life insurance business in total premium was 56.8 per cent. However, the share of life insurance business in Asian region was only 28.9 per cent, which is in contradiction with the global trend. For India, the share of life insurance business in total insurance business was very high at 80.2 per cent while the share of non-life insurance business was small at 19.8 per cent.

Literature review

The insurance sector plays a very important role in the development of any economy. It is necessary for the economic and overall development of any country. In today's competitive economy, the business, finance and insurance sector plays a very important role. More and more job opportunities are available in these sectors¹. It provides long-term funds for infrastructure development and at the same time strengthens the risk taking ability². The contribution of insurance sector to economic development hardly affects financial intermediation³ and it only a marginal contributor to the country's Gross Domestic Product⁴.

LIC is a better avenue of investment than bank deposit⁵, the agents of life insurance should improve their services to the level of financial experts⁶.

The awareness level of various policies of both General and Life Insurance Company is quite limited⁷, in order to increase awareness. The organization appoints development officers with responsibility in a specified territory (Trust with Trust) and special promotional efforts like field publicity vans, film shows, exhibitions etc are insisted⁸.

Understanding the customer better will enable insurance companies to design appropriate products, determine price correctly and increase profitability⁹ and banks are the potential partners in distributing the insurance products in the market¹⁰.

Indian insurance market has changed dramatically over the last few years. At the same time, changes have been taking place in the government regulations and technology. The expectations of policyholders are also changing¹¹. The individuals have their own perception towards various types of investment plans¹².

India is poised to experience major changes in its insurance markets as insurers operate in an increasingly deregulated and liberalized environment¹³. Life Insurance Company has been withdrawing many of its assured return plans, due to the factors like changing customer behavior, deregulation and government intervention, competition etc¹⁴.

Insurance penetration and density

From the table life insurance density is seen consistent growth rate between 2001 to 2010, since 2011 level of density of life insurance was only USD 49 and during 2012-13 it was only USD 42.7 which is less than previous year. Non-life insurance density and penetration remained stable in growth and ranged between 0.5 to 0.7 per cent.

Overall industry density in 2001 USD 11.5 and reached to USD 64.4 in 2010, since than find down fall in performance. Whereas penetration of the industry growth is not stable and year 2003, 2008, 2010, 2011 and 2012 are years industry experienced down trend in growth (Table No.1 and Figure No.1).

Total Life insurance Premium

Industry has seen stable growth rate in premium in all years except 2011-12, growth is declined (-1.57) which is first time in last decade. The total premium of the life insurance industry at the end of the year 2013 is 287202.49 crore only. 291638.64 crore is the highest premium of the industry which is recorded 2010-11. 2006-07 and 2001-02 are recorded highest growth rate respectively (Table No.2).

Average number of policies sold by Individual and corporate agents

Last five years policies sold by individual agents in overall industry are stable and very less growth and decline has recorded. 2012-13 average number of policies sold by private agents is 3 only which is 50 per cent of 2008-09 year. LIC do not code considerable change, industry average of policies sold by individual agents reached to 18 in 2012-13 and it was 16 only during 2008-09. Corporate agents are performed very well in last five years and good growth rate is seen by industry. Remarkable development is found when compare industry average number of policies sold 2012-13 to 2011-12 (Table No.3).

New Policies

For the period of 2012-13, life insurers issued 441.87 lakh new policies, out of which LIC issued 367.82 lakh policies (83.24 per cent of total policies issued) and the private life insurers issued 74.05 lakh policies (16.76 per cent). While LIC registered a growth of 2.88 per cent (3.47 per cent decline in 2011-12) in the number of new policies issued against the previous year, the private sector insurers continued the previous years' experience of significant decline and reported a dip of 12.88 per cent (24.04 per cent decline in 2011-12) in the number of new policies issued. Overall, the industry witnessed a 0.01 per cent decline (8.22 per cent decline in 2011-12) in the number of new policies issued (Table No.4).

Expansion of Offices

During the year under review, the decreasing trend in the number of life insurance offices in India continued as in the previous year. The private insurers closed 1,097 offices and at the same time opened 144 offices in 2012-13; therefore there was a net reduction of 953 offices during the financial year for the private sector. On the other hand, the public sector LIC established 71 new offices and closed none; hence, there was a net increase of 71 offices in case of the Government owned insurer. With this, the total number of offices of life insurers declined from 11,167 as on 31st March, 2012 to 10,285 as on 31st March, 2013 (i.e., 7.90 per cent reduction in their reach). During 2008 private sector has opened many offices which is two times of previous year 2007, LIC is open many in number during 2009

which is 20.14 per cent high when compare to 2008 (Table No.5).

Total Investment of the Insurance sector

The various sources of funds available for investment by life insurers can be classified as funds from traditional products and funds from ULIP products. The total value of funds invested by life insurers as on 31st March, 2013 was `17,44,894 crore. Of this, `3,42,507 crore (20 per cent of total funds) has come from ULIP funds and the remaining `14,02,387 crore (80 per cent) has been contributed by traditional products. The share of ULIP during last two years is exhibiting a downward trend and its share in 2012-13. Went down by 3.77 per cent when compared to the previous year. During the year under review, the market value of ULIP Fund reduced in absolute number by `27,465 crore.

The pattern of investments made by life insurers remained unchanged as on 31st March, 2013 when compared to 31st March, 2012. Central Government Securities and Approved Investments are two major avenues of investments by life insurers.

Based on the method of classification of funds, Life fund contributed `11,20,000 crore (64.19 per cent), Pension and General Annuity and Group Fund `2,82,387 crore (16.18 per cent) and ULIP fund `3,42,507 crore (19.63 per cent) to total investments. During 2012-13, the share of Pension/Annuity funds in total investment has gone up from 14.97 per cent to 16.18 per cent. Correspondingly, the share of Life fund has moved up from 61.64 per cent to 64.19 per cent. But, the share of ULIP fund has come down from 23.40 per cent to 19.63 per cent.

Non-Life insurers have contributed only 6.60 per cent of total investments made by the insurance industry. The total amount of investments made by the sector, as on 31st March 2013, was `1,22,992 crore. During 2012-13, the net increase in investments was `23,724 (23.89 per cent growth over previous year). I.4.5.7. The pattern of investments made remained the same as was in the previous year. As on 31st March, 2013, non-life insurers have invested `44,190 crore (35.93 per cent) and `30,658 crore (24.93 per cent) in Approved Investments and Central Government Securities respectively (Table No.6).

Table No.1: Insurance penetration and density

S.No	Year	Life		Non-Life		Industry	
		Density (USD)	Penetration (percentage)	Density (USD)	Penetration (percentage)	Density (USD)	Penetration (percentage)
1	2001	9.1	2.15	2.4	0.56	11.5	2.71
2	2002	11.7	2.59	3	0.67	14.7	3.26
3	2003	12.9	2.26	3.5	0.62	16.4	2.88
4	2004	15.7	2.53	4	0.64	19.7	3.17
5	2005	18.3	2.53	4.4	0.61	22.7	3.14
6	2006	33.2	4.1	5.2	0.6	38.4	4.8
7	2007	40.4	4	6.2	0.6	46.6	4.7
8	2008	41.2	4	6.2	0.6	47.4	4.6
9	2009	47.7	4.6	6.7	0.6	54.3	5.2
10	2010	55.7	4.4	8.7	0.71	64.4	5.1
11	2011	49	3.4	10	0.7	59	4.1
12	2012	42.7	3.17	10.5	0.78	53.2	3.96
Mean		31.46	3.31	5.90	0.64	37.35	3.96
Variance		283.59	0.78	2.68	0.003	370.26	0.82
Standard deviation		16.84	0.88	7.21	0.06	19.24	0.90
Skewness Coefficient		-0.026	0.02	0.13	0.27	-0.024	-0.006

* Insurance density is measured as ratio of premium (in USD) to total population.

* Insurance penetration is measured as ratio of premium (in USD) to GDP (in USD).

Source: Annual reports IRDA-2012-13

Table No.2: Total Lifeinsurance Premium

S.No	Year	Premium of life insurance industry (Rupees in crore)	Percentage of change to next year
1	2000-01	34898.47	---
2	2001-02	50094.46	43.54
3	2002-03	55747.55	11.28
4	2003-04	66534.75	19.56
5	2004-05	82854.80	24.31
6	2005-06	105875.76	27.78
7	2006-07	156075.84	47.41
8	2007-08	201351.41	29.01
9	2008-09	221785.47	10.15
10	2009-10	265447	19.69
11	2010-11	291638.64	9.87
12	2011-12	287072	-1.57
13	2012-13	287202.49	0.05

Source: Annual reports IRDA-2012-13.

Table No.3: Average number of policies sold

S.No	Year	Individual agents			Corporate Agents		
		LIC Average	Private Average	Industry Average	LIC Average	Private	Industry Average
1	2008-09	28	6	16	2190	1857	1908
2	2009-10	28	4	15	1606	2289	2172
3	2010-11	26	4	15	1708	1976	1933
4	2011-12	27	3	16	2194	2533	2474
5	2012-13	29	3	18	2569	5064	4376

Source: Annual reports IRDA-2012-13

Table No.4: New Policies Issued: Life Insurers

S.No	Insurer	2011-12	2012-13
1	LIC	357.51	367.82
		(-3.47)	-2.88
2	Private Sector	84.42	74.05
		(-24.04)	(-12.28)
	Total	441.93	441.87
		(-8.22)	(-0.01)

Figures in brackets indicate growth (in per cent) over previous year

Table No.5: Number of life insurance offices

S.No	Year	Private	growth (in percent) over previous year	LIC	growth (in percent) over previous year	Industry	growth (in percent) over previous year
1	2007	3072	---	2301	----	5373	---
2	2008	6391	108.04	2522	9.6	8913	65.88
3	2009	8785	37.45	3030	20.14	11815	32.55
4	2010	8768	-0.19	3250	7.26	12018	1.71
5	2011	8175	-6.76	3371	3.72	11546	-3.92
6	2012	7712	-71	3455	2.49	11167	-3.28
7	2013	6759	-12.35	3526	2.05	10285	-7.89

Source: Annual reports of IRDA 2012-13

Table No.6: Total investments of the insurance sector (crore)

S.No	Insurer	Life		Non-Life		Total	
		2012	2013	2012	2013	2012	2013
1	Public	12,69,070	14,02,991	71,104	83,644	13,40,174	14,86,635
		(-10.49)	(-10.55)	(-16.12)	(-17.64)	(-10.77)	(-10.93)
2	Private	3,12,188	3,41,902	28,165	39,348	3,40,353	3,81,250
		(-10.89)	(-9.52)	(-32.32)	(-39.71)	(12.40)	(12.02)
3	Total	15,81,259	17,44,894	99,268	1,22,992	16,80,527	18,67,886
		(-10.57)	(-10.35)	(-20.3)	(-23.9)	(-11.1)	(11.15)

Note: Figures in brackets represent growth in percentage over the previous year.

Source: Annual reports of IRDA 2012-13.

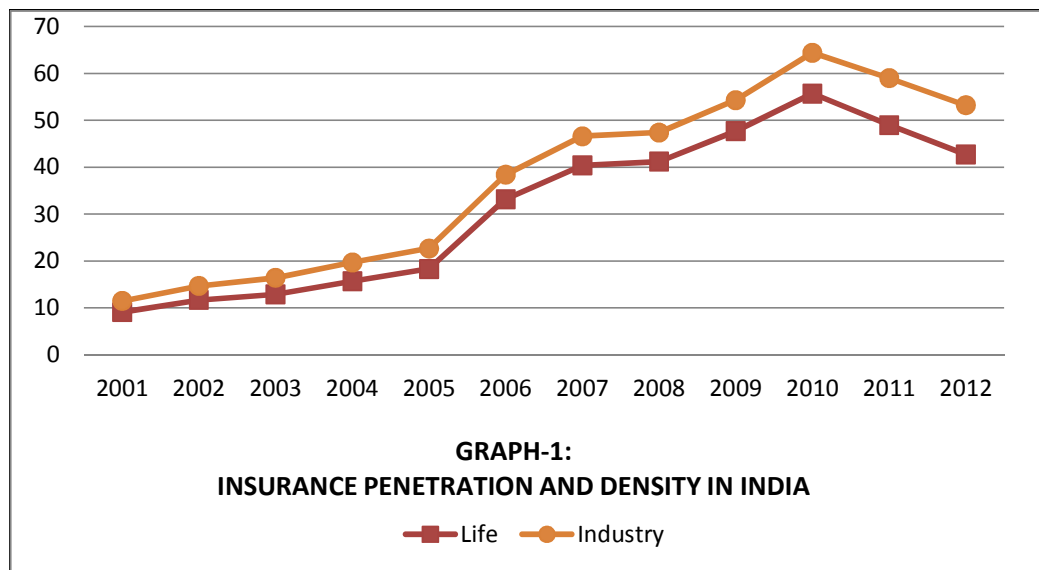


Figure No.1: Insurance Penetration and Density in India

CONCLUSION

Industry has seen stable growth rate in premium in all years except 2011-12, 2012-13 sector overall penetration and density is only USD 53.2. Policies sold by individual agents in overall industry are stable and for the period of 2012-13, life insurers issued 441.87 lakh new policies. In 2008 private sector has opened many offices, LIC open many in number during 2009. The Indian insurance industry has undergone transformational changes since 2000 when the industry was liberalized. To ensure a seamless growth in business few important factors should some of these include: Distribution channels, Focus on financial inclusion and Consumer needs and preferences. Life insurance is a big savings vehicle along with banking in such uncertain economic environment and so we expect the industry to fare reasonably well.

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CONFLICT OF INTEREST

None declared.

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