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GROWTH AND PERFORMANCE OF LIFE INSURANCE INDUSTRY INDIA

S. Chanbasha*¹ and M. Vijay Kumar¹

*¹Department of Management Studies, St. Ann's Engineering College, Chirala, Andhra Pradesh, India.

ABSTRACT

This paper has presented performance of life insurance industry since 2001-2012. The institutions providing insurance services have been an important part of the Indian financial system. Life Insurance industry is capital intensive, and insurers are required to infuse capital at regular intervals to fund both the new business strain and to expand their infrastructure base including expenses on initial operations. During the financial year 2012-2013, the life insurance industry reported net profit of Rs 6,948 crore as against Rs.5, 974 crore in 2011-2012. The last three year i.e. from 2011 to 2013, life insurance industry as a whole recorded a negative growth rate in terms of premium.

KEY WORDS

Insurance, Growth, Private, Profits and Public.

Author of correspondence:

S. Chanbasha,
Department of Management Studies,
St. Ann's Engineering College, Chirala,
Andhra Pradesh,
India.

Email: chandbasha_ong@yahoo.co.in.

INTRODUCTION

Life insurance activity in its modern form started in India in 1818 to provide insurance cover for English widows when Oriental Life Insurance Company was incorporated in Calcutta. Thereafter, other companies like Bombay Life Assurance Company in 1823 and Tritron insurance company for general insurance in 1850 were incorporated. Foreign insurance companies dominated insurance business in India and enjoyed near monopoly right up to the end of 19th century. Subsequently, insurance regulations formally began in India through the

passing of two Acts, Life Insurance Company's Act of 1912 and the Provident Fund Act of 1912.

The first comprehensive legislation was introduced with the Insurance Act of 1938 to control the insurance business in the country. The main concern was to protect the interests of the insuring public. After independence, the Indian insurance business witnessed severe competition as a result of which the non-Indian insurers were dislodged by Indian life insurance companies. The decision of nationalization of life insurance business took place in 1956 by the first prime minister of independent India, Pandit Jawaharlal Nehru, when 245 Indian and foreign insurance and provident fund societies were first merged and then nationalized.

The Act was amended in 1950 resulting in far-reaching changes in the insurance sector. By 1956, 154 Indian insurers, 16 foreign insurers and 75 provident societies were carrying on life insurance business in the country. In January 1956, in keeping with the then prevailing political and economical philosophy of socialism, 245 Indian and foreign insurers and provident societies operating in India were taken over by the Central Government by an Act of parliament, "The Life Insurance Corporation Act 1956".

AN AGGREGATIVE VIEW OF INDIAN INSURANCE

The institutions providing insurance services have been an important part of the Indian financial system. One can divide the history of the existence and working of insurance organizations in India into the following three phases (Table No.1).

The picture changed after the Independence. In 1956, 245 Indian and foreign life insurers and provident societies were nationalized, and a new single entity namely, Life Insurance Corporation (LIC) was established by passing the LIC Act 1956. Similarly, in 1972, 107 general insurers were nationalized through the passing of General Insurance Business (Nationalization) Act, 1972. The then existing 107 insurers were amalgamated and grouped into five companies, viz., National Insurance Company (NIC), New India Assurance Company (NIAC), Oriental Insurance Company (OIC), and United India

Insurance Company (UIIC), and General Insurance Corporation (GIC). Thus, in 1956 and in 1972, the competitive, private insurance industry was transformed into monopolistic and oligopolistic state or public sector insurance industry in India¹⁻⁵.

REFORMS IN THE INSURANCE SECTOR

Following the reforms in the capital market and in the financial sector, reforms in the insurance sector were also contemplated. As a part of reforms, the process of opening up of the sector had begun in the early 1990's and in 1993, the Government set up a committee under the chair of R N Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The reforms were aimed at "creating a more efficient and competitive financial system suitable for the requirement of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms". The Malhotra committee made certain recommendations⁶⁻⁸.

Insurance Regulatory and Development Authority (IRDA) Act, 1999

The Government established the IRDA to protect the interests of policyholders, to regulate, promote and ensure orderly growth of the industry and also to amend the insurance Act, 1938, the LIC Act, 1956, and the General Insurance Business (Nationalization) Act, 1972.

METHODOLOGY⁹⁻¹⁴

Secondary data sources of information and data are used to carry out the present study. The secondary data are collected for a period of 12 years from 2000-01 to 2012-13. The relevant data are collected from the annual reports, booklets and supplements published by the IRDA from time to time.

Period of the Study

The period of the study was from 2001 to 2013 i.e. of 12 years.

Statistical Tools and Techniques

All the data have been classified, tabulated for better comprehension and analysis. Statistical tools such as

mean, standard deviation (SD) C V and 't' value have been calculated for analysis of data.

Hypothesis of the study: Following is the hypothesis of the study

Ho: There is no significant difference in no. of policies issued during the period of the study.

H1: There is significant difference in no. of policies issued during the period of the study.

Ho: There is no significant difference in premium amount collected during the period of the study.

H1: There is significant difference in premium amount collected during the period of the study.

RESULTS AND DISCUSSION

Global Insurance Market

As per the world Insurance Report, published by the reinsurance major Swiss Re, the global life insurance premium in real term grew by 2.3 per cent in 2012 to USD 2621 billion after a contraction of 3.3 percent in 2011, mainly driven by the emerging markets. In advanced market premium grew by 1.8 per cent in 2012 as compared to negative growth of 3 per cent in 2011. Advanced Asian market which includes Japan, Hong Kong, South Korea and Taiwan registered a growth rate of 8.8 per cent. Premium increased by 2.3 percent in USA. Premium in Western Europe continued to contract but the rate of contraction declined to negative 3.1 percent in 2012 as compared to negative 9.7 per cent in 2011. Emerging market premium increased by 4.9 per cent in 2012. As per report, growth in life insurance will remain sluggish in 2013 due to weak economic growth in advanced nations. But the advanced Asian countries will perform better and there would be steady growth in life insurance in these economies. Emerging markets premium growth is expected to accelerate in 2013 supported by India and China.

Indian Life Insurance sector

As at end September 2013, there are fifty two insurance companies operating in India of which 24 are in the life insurance business and 27 are in non life insurance business. The life insurance industry recorded a premium income of Rs. 2.87.202 crore during 2012-2013 as against Rs.2,87,072 crore in the previous financial year, registering a growth of 0.05 per cent. While private sector insurers posted 7.38

per cent decline (4.52 per cent decline in previous year) in their premium income, Life Insurance Corporation of India(LIC), the state owned insurance company, recorded 2.91 per cent growth (0.29 per cent decline in previous year) in the total premium underwritten. While the renewal premium accounted for 62.62 per cent (60.31 per cent in 2011-12) of the total premium received by the life insurers, first year premium contributed the remaining 37.38 per cent (39.69 per cent in 2011-12). During 2012-2013, the growth in renewal premium was 3.88 per cent (4.77 per cent in 2011-12). First year premium registered a decline of 5.78 per cent in comparison to declined of 9.85 per cent during 2011-12.

Insurance Penetration and Density in India

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). Since opening up of Indian insurance sector for private participation, India has reported increase in both insurance penetration and density. However, the increase has been almost entirely contributed by the life insurance sector (Table No.2).

- Insurance density is measured as ratio of premium (in US Dollar) to total population.
- Insurance penetration is measured as ratio of premium (in US Dollars) to GDP (in US Dollars).

During the first decade of insurance sector liberalization, the sector has reported consistent increase in insurance penetration from 2.71 percent in 2001 to 5.20 percent in 2009. However, since then, the level of penetration has been declining and reached to 3.96 per cent. This indicates that during the past three years, the growth in insurance premium is lower than the growth in national GDP. A similar trend was observed in the level of insurance density which reached the maximum of USD 64.4 in the year 2010 from the level of USD 11.5 in 2001. During the year under review 2012-13, the insurance was USD 53.2.

The insurance density of life insurance business had gone up from USD 9.1 in 2001 to reach the peak at

USD 55.7 in 2010. During 2012-2013, the level of the life insurance density was only USD 42.7. Similarly, the life insurance penetration surged from 2.15 per cent in 2001 to 4.60 per cent in 2009. Since then, it has exhibited a declining trend reaching 3.17 per cent in 2012.

Profits of Life Insurers

Life Insurance industry is capital intensive, and insurers are required to infuse capital at regular intervals to fund both the new business strain and to expand their infrastructure base including expenses on initial operations, training costs for development of distribution channels and creating niche markets and achieving reasonable levels of persistency.

During the financial year 2012-2013, the life insurance industry reported net profit of Rs 6,948 crore as against Rs.5, 974 crore in 2011-2012. Out of the twenty four life insurers in operations during 2012-2013, Seventeen companies reported profits. LIC of India reported net profit of Rs.1, 437.59 crores, an increase of 9.46 per cent over 2011-12.

Growth and Performance of Life Insurance Industry in India

Number of New Policies issued by Lic of India and Private Sector Insurers

No. of new policies issued is an Indicator of the growth and Performance. The new policies issued and market share of LIC and private sector insurers for the years 2002-2003 to 2012-2013 has been shown in Table No.1.

Table No.1 depict the complete picture of the performance of new business in terms of number of policies for all the players during 2002-2003 to 2010-2011. The performance of LIC has deteriorated and those of private players have improved tremendously. These results show that in 2002-03, the new polices of LIC was only 245.45 lakhs which increased to 269.68 in 2003-2004. But in 2004-05, instead of growth, there is a fall in number of policies from 269.68 to 239.78 lakhs (i.e.-11.09%). During 2004-2005 and 2005-2006, 31.75% and 21.01% growth in number of new policies has been recorded. New policies underwritten by the life insurance industry were 508.74 Lakhs in 2007-2008 as against 461.51 Lakhs during 2006-2007 showing an increase of 10.23%. While LIC of India exhibited

a decline of 1.61 % as against a growth of 21.01% in 2006-2007. The fiscal year 2008-09 witnessed global financial meltdown. Despite of it, the Indian Insurance recorded a marginal growth of 0.10 %. LIC, showed a negative growth for the second consecutive year at 4.73% as against its previous year negative growth of 1.61 %. During 2009-10, LIC reported an increase of 8.21% as against -4.73% in 2008-09. During the year 2010-11, LIC suffered a decline of 4.70 per cent in the number of new policies issued against the previous year.

Whereas, in case of private sector, in the year 2002-03, the number of policies was only 8.25 lakhs which almost doubled and increased to 16.58 lakhs in 2003-2004. Similarly in 2004-05, there was a further increase in number of policies of private players from 16.58 to 22.33 lakhs. Thus, the number of policies of the private players had almost tripled in the year 2004-2005. During 2005-06 the private players exhibited a growth of 73.77%, (more than twice the growth reported in the previous year with 34.62%). New policies underwritten by the life insurance industry in 2006-07 were 461.52 lakhs as against 354.62 Lakhs during 2005-06, the private insurers showed a growth of 105.65% (Previous year 73.37 %). The market share of the private players in terms of policies underwritten was 17.17% as against 10.92 in 2005-06. During 2007-08, the private insurers recorded a growth of 67.40% which constituted 26.07 % of market share of life insurance industry. In the fiscal year 2008-2009 the private sector insurers exhibited a growth of 13.19%, which is lower than 67.40% recorded in the previous year. During 2009-10, the private sector life insurers reported a decline of 4.32 % (13.9% increases in 2008-09) in the number of new policies issued. During the year 2010-11 the private sector insurers reported a significant decline of 22.61 per cent in the number of new policies issued. During the year 2012-2013, life insurers issued 441.87 lakh new policies, out of which LIC issued 367.82 lakh polices and private life insurers issued 74.05 lakh policies. Insurance industry continued the experience of significant decline in no of policies issued (-19.10) as against -17.53 per cent decline during the year 2011-12.

The above analysis reveals the life insurance industry experienced significant declining trend continuously from 2010-11 to 2012-13 (Table No.3).

Premium of Public (LIC) and Private Sector Insurers

Premium Income is one of the important and main indicators of the performance of the insurance business. The first premium income and market share of LIC and Private sector players during 2001-2002 to 2010-2011 has been presented in Table No.3. These tables show the trend in premium income of various players during the study period. The premium income includes Individual single premium, individual non-single premium Group single premium and Group non-single premium.

It can be seen from Table No.3 that in 2000-2001 first year premium income of LIC was Rs. 9700.98 lakhs, Which increases to Rs.19588.77 lakhs (101.93 percent)in 2000-2001and in 2002-2003, it has dropped down to Rs. 15976.76 lakhs showing a fall of 18.44%. In 2003-2004, premium income of LIC slightly rose to Rs.17347.62 lakhs and again in 2004-2005, it further increased to Rs.20653.06 lakhs. In 2005-2006, 2006-2007 and 2007-2008 premium income of LIC recorded as Rs.28515.87, 56223.56, 59996.57 lakhs but in 2008-2009 premium income of LIC has dropped down to Rs.53179.08 lakhs showing a fall of -11.36 percent . However, amazingly during the fiscal year 2009-2010 it has risen to Rs.71521.9 lakhs showing tremendous growth of 34.49 percent, during the fiscal year 2010-11 growth rate in premium income about 21.66 per cent which is less than previous year

Rise in the premium income of private players is quite high as compared to public sector insurer. In 2001-2002 premium income of private insurers was only Rs.268.52 lakhs as it was the beginning year of the private players. However, in 2002-2003, it increased to 965.7 lakhs showing tremendous growth

in the second year of business. In 2003-004, premium income reached to Rs.2440.69 lakhs and further in 2004-2005, it touches Rs. 5564.57 lakhs, which shows a healthy growth rate of premium in case of the private sector. In 2005-2006, 2006-2007, 2007-2008 it has healthy growth of Rs.10269.67, 19425.66, 33715.95 lakhs in terms of premium but in 2008-2009 private sector growth has not been as sharp as it was in the previous year's i.e. Rs.34152.2 (1.29%), however, the private sector again regained growth of 12.36% in terms of premium income. There was drastic decline in the growth rate of premium income during the year 2010-11 which is 2.60 per cent as against 12.36 per cent during the year 2009-10. Life insurance industry recorded a first premium income of Rs. 107361.08 crores during 2012-13 as against Rs 113786.04 crore in the previous financial year, registering growth of -5.80 per cent (-9.84 per cent in declined in the previous year). The above analysis reveals that the private sector insurers posted 6.87 percent decline during 2012-13 as against 4.52 percent decline in previous year, public sector (LIC) recorded 2.92 percent growth against 0.29 per cent decline in the previous year.

The above analysis discloses that for the last three year i.e. from 2011 to 2013, life insurance industry as a whole recorded a negative growth rate in terms of premium. In initial year of the liberations of insurance sector the private players are improving year by year affecting the performance of LIC. Since the liberalization of insurance sector (reforms) there has been study and sharp growth in the private sector players in terms of premium, where as in this scenario LIC is perpetually losing its share in terms of premium. However, for the last two LIC of India retrieval its market shares (Table No.4).

Table No.1: An aggregative view of Indian Insurance

Phase I (a) Life Insurance: (b) General Insurance:	1818 to 1956: (About 138 Yrs.) 1850 to 1972: (About 122 Yrs.)	Many (245) private sector companies only; competitive market. Many (107) private sector companies only; competitive market.
Phase II (a) Life Insurance: (b) General Insurance:	1956 to 2000: (About 44 Yrs.) 1972 to 2000: (About 28 Yrs.)	Nationalization, public sector or State monopoly; only one company. Nationalization, public sector or State monopoly; one company with its 4 subsidiaries.
Phase III Life Insurance and General Insurance	After 2000:	Opened to the entry of private domestic and foreign companies mixed; sector of public and private sector units; oligopoly of public sector companies (12 life insurance and 12 general insurance companies).

Source: IRDA Annual Report, 2010

Table No.2: Insurance penetration and density in India

S.No	Year	Life Insurance		Non-Life Insurance		Industry	
		Density (USD)	Penetration (% age)	Density (USD)	Penetration (% age)	Density (USD)	Penetration (% age)
1	2001	9.1	2.15	2.4	0.56	11.5	2.71
2	2002	11.7	2.59	3.0	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	0.64	19.7	3.17
5	2005	18.3	2.53	4.4	0.61	22.7	3.14
6	2006	33.2	4.10	5.2	0.6	38.4	4.8
7	2007	40.4	4.0	6.2	0.6	46.6	4.7
9	2008	41.2	4.0	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	5.10
11	2011	49.0	3.4	10.0	0.70	59.00	4.10
12	2012	42.7	3.17	10.5	0.78	53.2	3.96

Table No.3: Number of New Policies issued by Public Sector (LIC of India) and Private Sector Insurers (In lakhs)

S.No	Year	Public Sector (LIC)	Private Sector	Total	Growth Rate %
1	2002-03	245.45	8.25	253.7	---
2	2003-04	269.68	16.58	286.26	12.84
3	2004-05	239.78	22.33	262.11	-8.44
4	2005-06	315.90	38.72	354.62	35.29
5	2006-07	382.29	79.23	461.52	30.14
6	2007-08	376.12	132.63	508.75	10.23
7	2008-09	359.13	150.10	509.23	0.1
8	2009-10	388.63	143.62	532.25	4.52
9	2010-11	370.38	111.14	481.52	-9.53
10	2011-12	357.51	84.82	441.93	-17.53
11	2012-13	367.82	74.05	357.51	-19.10
12	Mean	333.89	78.32	404.41	---
13	SD	56.50	51.89	105.09	---
14	CV	---	---	---	---
15	t value	19.59	5.00	12.67	---

Source: Compiled from IRDA Annual report from 2002-2003 to 2012-2013.

Table No.4: First Year Life Insurance Premium Public Sector (LIC of India) and Private Sector Insurers (Rs.Crore)

S.No	Year	Public Sector (LIC)	Private Sector	Industry Total	% of Growth Rate
1	2000-01	9700.98	6.452	9707.43	---
2	2001-02	19588.77	268.52	19857.28	104.56
3	2002-03	15976.76	965.7	16942.45	-14.68
4	2003-04	17347.62	2440.69	19788.33	16.79
5	2004-05	20653.06	5564.57	26217.64	32.49
6	2005-06	28515.87	10269.67	38785.54	47.93
7	2006-07	56223.56	19425.66	75649.21	95.04
8	2007-08	59996.57	33715.95	93712.52	23.88
9	2008-09	53179.08	34152.2	87331.08	-6.81
10	2009-10	71521.9	38372.12	109894	25.84
11	2010 11	87012.35	39368.65	126381.00	-15.00
12	2011-12	81682.25	32103.79	113786.04	-9.84
13	2012-13	76611.50	30749.58	107361.08	-5.80
14	Mean	46000	19031	65031.82	---
15	SD	28256.741	16109.11	43812.23	---
16	CV	---	---	---	---
17	t value	5.67	4.26	5.35	---

Source: Compiled from IRDA Annual report from 2000-2001 to 2012-2013

CONCLUSION

Out of the twenty four life insurers in operations during 2012-2013, Seventeen companies reported profits. LIC of India reported net profit of Rs.1, 437.59 crores, an increase of 9.46 per cent over 2011-12. During the year 2010-11, LIC suffered a decline of 4.70 per cent in the number of new policies issued against the previous year. Whereas, in case of private sector, in the year 2002-03, the number of policies was only 8.25 lakhs which almost doubled and increased to 16.58 lakhs in 2003-2004. The life insurance industry experienced significant declining trend continuously from 2010-11 to 2012-13. 2011 to 2013, life insurance industry as a whole recorded a negative growth rate in terms of premium.

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