Competition in Life Insurance Sector of India

Sriman Srichandan

Research Scholar Fakir Mohan University, Balasore
Email: s_srichandan@hotmail.com

Abstract - My research is aimed at understanding the life insurance sector in India and flagging issues relating to competition in this sector. The life insurance sector has a small market and cover approx. 3 % of population in India. As a growing sector, it is important that all players get a level playing field. The competition act is to provide for a level playing field to all players to encourage competition in market. Through my study I have tried to substantiate this with facts and evidence proving that LIC as a state owned enterprise enjoys a dominant market. The enterprise having a dominant position is not per se illegal but abuse is. The dominance of LIC is not deliberate rather it is by virtue of the regulations that the market is deprived of a level playing field and market has an anti-competitive environment. This sector is highly lucrative and therefore increasing the FDI cap would be a step to enhance competition in this sector and also cover a large population. Exclusive networking, sovereign guarantee and entry barriers like limited FDI creates an anti-competitive environment in market.

Competition in Life insurance sector of India

INTRODUCTION

The topic basically revolves around the life insurance sector which has been recently opened for the private players. LIC has for a long period of time has enjoyed a 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%. Life Insurance in India was nationalised by incorporating Life Insurance Corporation (LIC) in 1956. All private life insurance companies at that time were taken over by LIC.

In 1993 the Government of Republic of India appointed RN Malhotra Committee to lay down a road map for privatisation 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 and legislating the Insurance Regulatory and Development Authority Act of 2000. The same year that the newly appointed insurance regulator - Insurance Regulatory and Development Authority IRDA —started issuing licenses to private life insurers.

List of Life Insurers (as of Sept, 2008)

Apart from Life Insurance Corporation, the public sector life insurer, there are 22 other private sector life insurers, most of them joint ventures between Indian groups and global insurance giants.

Life Insurer in Public Sector

1. Life Insurance Corporation of India

Life Insurers in Private Sector

1. SBI Life Insurance
2. Metlife India Life Insurance
3. ICICI Prudential Life Insurance
4. Bajaj Allianz Life
5. Max New York Life Insurance
6. Sahara Life Insurance
7. Tata AIG Life
8. HDFC Standard Life
9. Birla Sunlife
10. Kotak Life Insurance
11. Aviva Life Insurance
12. Reliance Life Insurance Company Limited - Formerly known as AMP Sanmar LIC
13. ING Vysya Life Insurance
14. Shriram Life Insurance
15. Bharti AXA Life Insurance Co Ltd
16. Future Generali Life Insurance Co Ltd
17. IDBI Fortis Life Insurance
18. AEGON Religare Life Insurance
19. DLF Pramerica Life Insurance
20. CANARA HSBC Oriental Bank of Commerce LIFE INSURANCE
21. India First Life insurance company limited
22. Star Union Dia-ichi Life Insurance Co. Ltd

These are few companies on the list. 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. The industry is in the throes of competitive market forces. Unlike several industries like telecommunication and oil industry, insurance is not a high capital cost industry. This industry is build up on a good will and on access of distribution network.

EVOLUTION OF LIFE INSURANCE IN INDIA

Life insurance traces its origins in India to the early nineteenth century when companies in India insured the lives of Europeans living here. Eventually these companies began to cover Indians as well but required them to pay higher premiums. Regulations were passed to regulate the Indian insurers (but not the foreign companies providing insurance services in India) and to allow collection of information about insurance companies thus facilitating comparison amongst them. However the legislations became insignificant with time and the government nationalized the sector by combining all the 154 Indian private insurance companies to give birth to one behemoth: the Life Insurance Corporation of India. Through this the Government strived to put an end to prevalent malpractices such as poor Servicing standards along with the appalling management of companies wherein funds were simply being divested to all types of securities without any valuation of the borrowers. The Government took over the reins of the industry in its own hands reasoning that insurance was a cooperative enterprise and should be within the purview of the state in order to provide improved services to the public at lower costs. It was also envisioned that the nationalization of this sector would lead to more effective mobilization of funds to enable capital to be allocated to development projects. Besides the charter of freedom also pleaded the control of the state on key industries such as banking and insurance. Thus the industry was transformed from a competitive one to a highly regulated monopoly.

In the last decade of the 20th century India watched history repeat itself. With the Government implementing the New Industrial Policy in 1991, the country underwent a major wave of globalization. Strategic sectors such as the banking and the financial sector were reformed. Time had come for the policymakers to introspect the current policies in the Indian insurance industry as well. Committees on insurance sector reforms followed suit and it was found that India had continued to be one of the least insured countries till the late 20th century. Experts emphasized that customer service, insurance coverage, allocation of resources needed to be improved within the industry. Also more innovative products were needed to suit varied customer needs and to change opinion of people towards insurance, from tax exemption product to a tool for mitigating risks and increasing savings. Thus it was recommended that the industry should be opened up to enhance competition and autonomy be given to insurance companies to improve their performance and enable them to act as independent companies with economic motives. Thus the life insurance industry was liberalized with the aim of increasing contribution to the GDP and to the society.

Malhotra Committee’s Recommendations

The committee submitted its report in January 1994 recommending that private insurers be allowed to co-exist along with government companies like LIC and GIC companies. This recommendation had been prompted by several factors such as need for greater deeper insurance coverage in the economy, and a much a greater scale of mobilization of funds from the economy for infrastructural development. Liberalization of the insurance sector is at least partly driven by fiscal necessity of tapping the big reserve of savings in the economy. Committee’s recommendations were as follows:

1) Raising the capital base of LIC and GIC up to Rs. 200 crores, half retained by the government and rest sold to the public at large with suitable reservations for its employees.
2) Private sector is granted to enter insurance industry with a minimum paid up capital of Rs. 100crores.
3) Foreign insurance be allowed to enter by floating an Indian company preferably a joint venture with Indian partners.
4) Steps are initiated to set up a strong and effective insurance regulatory in the form of a statutory autonomous board on the lines of SEBI.
5) Limited number of private companies to be allowed in the sector. But no firm is allowed in the sector. But no firm is allowed to operate in both lines of insurance (life or non-life).
6) Tariff Advisory Committee (TAC) is delinked form GIC to function as a separate statuary body under necessary supervision by the insurance regulatory authority.
7) All insurance companies be treated on equal footing and governed by the provisions of insurance Act. No special dispensation is given to government companies.
8) Setting up of a strong and effective regulatory body with independent source for financing before allowing private companies into sector.

Government companies had to face competition to private sector insurance companies not only in issuing various range of insurance products but also in various aspects in terms of customer service, channels of distribution, effective techniques of selling the products etc. privatization of the insurance sector has opened the doors to innovations in the way business can be transacted.

New age insurance companies are embarking on new concepts and more cost effective way of transacting business. The idea is clear to cater to the maximum business at the least cost. While nationalized insurance companies have done a commendable job in extending volume of the business opening up of insurance sector to private players was a necessity in the context of liberalization of financial sector. If traditional infrastructural and semi-public goods industries such as banking, airlines, telecom, power etc. have significant private sector presence, continuing state monopoly in provision of insurance was indefensible and therefore, the privatization of insurance has been done as discussed earlier. Its impact has to be seen in the form of creating various opportunities and challenges.

Opportunities

1. 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.
2. It resulted in better customer services and help improve the variety and price of insurance products.
3. 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.
4. Entry of private players will ensure the mobilization of funds that can be utilized for the purpose of infrastructure development.
5. 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.
6. 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.

LIC is a state owned enterprise. LIC emerged as a dominant enterprise over a long period of time and in the 10 years of the opening of this sector, LIC has retained large market share. Also the industry has not been able to cover much percentage of people in the country. Out of approx. 3% of the population covered, LIC has a large percentage of people covered under it. It has been often said that state owned enterprise can have strong incentives to engage in anticompetitive activities that serve to expand the scale and scope of their operative activities.

Entry barrier

Life insurance covers approx. 3% of the total Indian population. India needs that more players come in life insurance sector and cover a large population with life insurance. For this, it is required to allow more Foreign Direct Investment in insurance sector so that more funds are available with foreign players come in market and the size of market grows. There is scope of higher capital infusion, the higher the growth of market possible. Despite the progress, India's insurance sector remains very small compared with some of the major emerging markets. India's share of global insurance market is less than 1%. The insurance industry lags behind other economies in the baseline measure of insurance penetration. Industry is now open to private players under the government mandate of a minimum capital

of Rs.100 crore of which a maximum of 26% stake can be held by a foreign partner as equity.

Global insurers are now permitted to set up and register a domestic company in order to write business in India. However, regulations stipulate that they have a capital base of at least US $ 20 million, and their investment in such company is capped at 26 percent. Thus, to participate in the market, they must form a joint venture with an Indian partner that is able to invest the remaining funds.

The equity investments limit is the same for global reinsures seeking to write business in India, but they are required to put up a capital of approximately US$ 45 million in order to establish a domestic company. On the other hand, no global reinsurer has established a domestic company. Instead, most of the top international reinsurance companies operate from their overseas offices by sharing the reinsurance risks picked up by the GIC. A recent proposal has been put forward to increase foreign direct investment to 49 percent. In addition, global companies are pushing for the right to establish branch offices in India. These changes are likely to substantially increase the presence of international insurers, reinsurers, and brokers in India.

Currently, FDI represents only Rs.827 crore of the Rs.3179 crore capitalizations of private life insurance companies. FDI in insurance would increase the penetration of insurance in India, where the penetration of insurance is abysmally low with insurance premium at about 3 percent of GDP against about 8 percent global average. This would be better through marketing effort by MNCs, better product innovation, consumer education etc. The ASSOCHAM President Sajjan Jindal maintains that insurance sector in India has the capability of raising long term capital from the market as it is the only avenue where people put in money for as long as 30 years even more. An increase in FDI in insurance would

indirectly be a boon for the Indian economy, the investments not withstanding but by making more people invest in long term funds to fuel the growth of the Indian economy, he feels.

On 13th January, 2011, in a move to dent investor sentiment, the parliamentary standing committee on finance is set to reject government's move to further open the insurance sector. The Insurance Amendment Bill, tabled in parliament, had proposed to raise the foreign investment limit in the key financial sector to 49% from 26% fixed a decade ago. A majority of committee members felt that a higher foreign direct investment ceiling could affect domestic players. Though the government is not bound to accept the standing committee's recommendations, the suggestions will make its daunting and force it to cut deals with small groups in Lok Sabha to muster support for the passage of the bill.

FDI cap is the biggest entry barrier stopping the growth of the life insurance market and narrowing down the market size. With the opening up of market for foreign players the competition will get a boost and the service will reach out for masses increasing the size of market.

With no profits or little profits to private players there is a requirement of Capital Adequacy Ratio. As the market grows the market has to meet out the Capital adequacy norms. Capital infusion can be brought in terms of Foreign Direct Investment. And preventing FDI in India is proving to be a hindrance in increasing the market size

MARKET STRUCTURE

It is important to understand the market structure of life insurance sector. LIC as a dominant player has gained an increase of 88%in new business premium income. Despite of uncertain environment, total premium of Life Insurance industry increase by 66% to Rs 62,361.34 crore in first six months of the current fiscal from Rs 39,046.59 crore in same period last fiscal. In 2010, life insurance companies witnessed new business premium collecting during first five months. According to LIC's recent filing with IRDA the total value of its investments from policy holders funds, as at June 30 2010, stood at Rs 867,935 crore as agencies Rs. 717,002 crore on June,2009, the value of investments in equity share has become 183,233 crore. Public sector Life Insurance Corporation of India (LIC) has clocked a robust 72.53 per cent jump in fresh premium collection in January 2009 leaving behind major private sector players, most of whom have posted negative growth in the month as compared to January 2008.

Data released by insurance sector regulator IRDA shows that the first year premium of the life insurers for the period of December, 2010 is again predominantly in favour of LIC. Herein mentioned are some statistics given by IRDA regarding the individual single premium of several life insurers in December 20101:-

1. Bajaj Allianz - 77.26 crore
2. ING vyasa - 2.58 crore
3. Reliance Life - 80.26 crore
4. SBI life - 248.54 crore
5. Tata AIG - 14.02 crore
6. HDFC standard - 136.72 crore
7. ICICI prudential - 251.97 crore
8. Birla Sunlife - 9.73 crore
9. Aviva - 21.57 crore
10. Max New York - 25.15 crore
11. Met Life - 33.86 crore
12. Shriram Life - 44.90 crore
13. IDBI federal - 21.11 crore
14. Star Union Dai-ichi - 44.98 crore
15. LIC - 1774.43 crore

These are some top companies and there premium collected in December 2010 which clearly depicts that LIC has lucrative market dominance and other private players have a small market share. Such figures explain that LIC is a dominant entity and can influence competition in market negatively due to the regulation of the regulatory body and the government. Talking about the number of lives covered under group single premium upto December, 2010 for some major companies are as follows according to the data released by IRDA on basis of data submitted by these insurance companies:-

1. Bajaj Allianz - 105972
2. Reliance life - 508352
3. SBI Life - 239465
4. Tata AIG - 57543
5. HDFC Standard - 175291
6. ICICI Prudential - 1793883
7. Kotak Mahindra - 359582
8. Max New York - 1495603
9. Shriram Life - 216448
10. LIC - 27020588

Apart from these companies like Aegon Religare and Birla Sunlife has 959 and 995 lives covered upto December 2010. This is evident in itself to prove my pont that knowing or unknowingly but the regulation in the insurance sector is giving an undue advantage to LIC and leading to unfair competition. The top 5 life insurance companies in India control 85% of the market-share while the remaining dozen are still struggling to setup their operation. If we see the entire market amongst private players only excluding LIC in life insurance sector we would see there is hardly any private player which has a grip over the market.

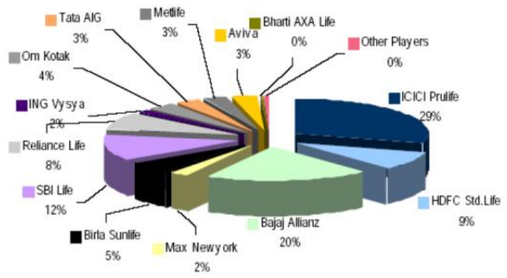

Fig :- market split up of private life insurers only excluding LIC

India has come a long way since the economic reforms in 1991, moving from the growth rates of 5% into the orbit of 7-9% growth rates. This growth has been structurally driven by economic reforms, private entrepreneurship and linkages to the global economic boom. A McKinsey study estimated that India is likely to emerge as the fifth largest consuming nation in the globe by 2025. Significant demographic changes over the next two decades should throw up major investment opportunities for businesses as well as investors. Every year, around Rs. 600,000 crores (Rs. 6 trillion) of household savings is being invested into HH Financial assets. Around 18-20% of this income goes into insurance. Proposed Direct Tax code, aimed at a substantial increase in income tax limit and product efficiency, could also lead to higher contribution to insurance. The Indian life insurance sector has been witness to varied phases witnessing a slew of changes in the past year. Since 1999, when the government opened up the insurance sector by allowing private companies to solicit insurance and also allowing foreign direct investment of up to 26%, the insurance sector has been characterized by a booming market. Hence 2010, was a landmark year in the history of the Indian insurance industry as it celebrated a decade since the entry of the private sector into this business.

The figures show that LIC has gained market share in spite of new companies coming in the market which signifies the dominance of LIC in the market and the ineffectiveness on its strengthened position in market. 50-60% of new biz premium will come from ULIPs. Private sector players posted only 12 per cent growth in new business and collected Rs

38,399 crore premium. Among the private players, SBI Life emerged as the leading insurer, in terms of new business. SBI Life collected Rs 7,041 crore in new business premium against Rs 6,334 crore collected by ICICI Prudential in 2009-10. Amongst all these, LIC managed to increase its market share to 65 per cent in FY10 from 61 per cent in FY09. Of the new business premium collected by the industry, around 50-60 per cent will be from ULIPs.

While ULIPs will be around 75-80 per cent of the new business premiums for the private sector players, it could be more than 50 per cent for LIC. Reckoned among the fastest growing industries, the Life Insurance Industry of India has 23 license-holders running their business in this sector. The Life Insurance Corporation of India(LIC), which is the only player in the public sector, contributes over 70% to the business. The remaining area is covered by the 22 private sector

companies. In 2010, Life insurance companies witnessed a 20 per cent jump in weighted new business premium collection during the first five months of the financial year. According to data released by the Insurance Regulatory and Development Authority (IRDA), insurance companies garnered around US$ 7 billion in weighted new business premium during April - August 2010, against US$ 5.5 billion in the corresponding period last year. The year 2010, ushered sweeping regulatory changes that altered the way industry worked. It marked significant changes in product profile of unit-linked insurance plans. The new guidelines capped the overall charges and also imposed a minimum prescribed return in order to offer a better deal to investors. It was the fastest set of regulatory changes ever seen in the shortest period of time.

State-owned Life Insurance Corporation of India (LIC) has emerged much stronger in the months following the uncertainty over unit-linked insurance plans (Ulips). The corporation has seen its market share spike to 73.4% by end-June '10, from 60.79% during end-March '09. 2 Despite of the entry of several private player, LIC has managed to grow its market share in new businesses by recording the first-year premium of Rs 18,740 crore — an increase of 107% over the corresponding quarter last year. As against this, the new business premium for the rest of the industry was Rs 12,884 crore. However, all private life insurance companies put together could generate a new business premium of only Rs 7,126 crore — an increase of 28% over the year-ago period.

Most of the premium came from single premium Ulips. Some of the corporation's key Ulips are slated to close in August, as all insurance companies are expected to file new products that are compliant with the new guidelines. These numbers were divulged by TS Vijayan, chairman, LIC while announcing business results for 2009-2010. For 2009-2010, the corporation recorded a total income of Rs 2,98,721 crore — an increase of 49.2% over the previous year. This included premium income of Rs 1,85,985 crore, which was 18.3% higher than last year. this makes it obvious that the corporation was in better position today, because the focus has been on increasing returns for policyholders by curtailing expenses and not on profits. According to Mr Vijayan, the corporation would have to only tweak some of its Ulips to bring the charge structure in line with the new regulations prescribed by the regulator. However, LIC would need to do some restructuring to reduce the impact of charges on those who exit their policy after five years.

At the end of the first quarter, LIC had made investments amounting to Rs 39,000 crore. Of which, an investment of Rs 10,000 crore was pumped into equities. Mr Vijayan said that the corporation was targeting investments to the tune of Rs 2 lakh crore during the current year. Some of the life insurance companies in India that reported positive growth in the financial year 2008-2009 are LIC, Met life, Kotak Mahindra. LIC booked a gain of Rs957.35 crore as against Rs 844.63 crore the previous. Met Life benefits rose to Rs 14.52 crore and Kotak Mahindra, which had booked a loss of 71.87 crore previous year, saw its profit rising by 14.34 crore. This in itself explains the dominance of LIC in the market of life insurance.

While considering the performance of Indian Life Insurance Sector in 2008-09, we cannot ignore some down trends in this industry. The private players in this sector witnessed a loss of Rs 4,879 crore. In order to tackle the losses, the life insurance companies had to infuse Rs 5, 956 crore. The Provisions of the Competition Act,2002 The act is to prevent practices having adverse effect on competition, to promote and sustain competition in market, to promote the interest of consumers and to ensure freedom of trade. The act brings in the importance of level playing field in the market for all the players in a relevant sector. In this sector only section 4 of the act is invoked. There is no anti-competitive agreement or any such combination in this sector but there seems to be a dominance of a state owned LIC and the abuse of dominance is also felt after looking at the macro structure of this sector. Section 4(2) clearly lays down the condition where an enterprise is said to abuse its dominant position.

Dominance under the provisions of competition act is not per se illegal rather the abuse of the dominant position is illegal. Dominant position means a position of strength, enjoyed by an enterprise, in the relevant market, in India, which enables it toi. Operate independently of competitive forces prevailing in the relevant market; or ii. Affect its competitors or consumers or the relevant market in its favour. Section 4 of the act enumerates about the abuse of dominance and the conditions where an act of an enterprise shall lead to abuse of dominant position. The dominance is hence proven from the relevant market. Dominance has to be proven in light of the relevant market. The relevant market identifies the products or services which are close substitutes for each other and they operate as a constraint on the conduct of the supplier. To determine if an enterprise has a dominant position its relevant market must be defined. A relevant market has two dimensions: product market and geographical market. The relevant product market comprises of all products which are in competition with the product in question. On the demand side a relevant product market includes all substitutes that the consumer could switch to if the price of the product in question were to increase and on the supply side, the relevant market includes all producers who could, with their existing facilities, switch to the production of substitutes to the goods.3 In determining the relevant product market the SSNIP4 test is used under which the question that is asked is that if the price of the product were to rise by 5-10%, then whatever products the consumer would switch to because of this rise would constitute the relevant product market. This test however has a major drawback in determining the relevant market in abuse of dominance instances because the primary bone of contention is defining a relevant market of the product in question. Disputes arise regarding what constitutes a relevant market. This renders difficult the scope of determining a relevant market in abuse of dominance cases because of which subsequent steps to establish, first dominance and then its abuse falls flat.

The relevant geographical market on the other hand involves identification of a geographical area within which competition takes places, which may be local, national or international. Geographical limits of a firm are primarily influenced by consumption, transportation costs or perish ability of goods.5 For example, the high transportation cost of cement leads to its geographical market to be close to the manufacturing facility.6 The relevant geographic market is regarded as that part of the relevant market that identifies the physical regions in which the firms might compete.

DOMINANT POSITION IN RELEVANT MARKET

Traditionally, dominance is defined in terms of the market of the enterprise, but besides that there are other factors which determine dominance and these are market share of the enterprise, size and resources of the enterprise, size and importance of competitors, economic power of the enterprise, vertical integration, dependence of consumer on the enterprise, monopoly or dominant position whether acquired as a result of any statute or by virtue of being a Government company or a public sector undertaking, entry and exit barriers in the market, countervailing buying power, market structure and size of the market, social obligations and contribution of enterprise towards economic development.7 Dominance is defined under section 4 of the Act and such a dominance has to be seen under section 19(4). As mentioned earlier, to claim abuse of dominance through any of the known forms of abuse, dominance of that enterprise in the relevant market has to be proven. In United Brands and United Brands Continental BV v Commission of the European Communities8 the Courts examined the market share of United Brands, the market share of its nearest competitors, extent of vertical integration of the enterprise, its technological advantages and its resources. After examining all of the above mentioned criteria the court concluded that United Brands was dominant in the market. It is also necessary to examine entry barriers and entry costs.

Once the relevant market has been defined, establishing whether a firm occupies a dominant position depends on the market share of the firm and entry conditions. It is difficult to set limits at which the firms can be deemed to have market power. It is unlikely that a firm having a market share of less than 35% would have the ability to affect competition in the market. On the other hand a firm having market share of more than 70%, such a firm could be in a position to exercise market power, like in the case of Microsoft which is a dominant firm in the software industry having major market share. LIC has undoubtedly a market share of more than 70%

Dominance in market : LIC

All this time, we find a dominant position being enjoyed by state owned LIC in life insurance market. This has to be substantiated to prove its dominance in the relevant market. In India, LIC is the only state owned enterprise working in life insurance sector. There are several private players in this market but only one state owned enterprise. To say that private players have some catching up to do with LIC would be an understatement of sorts. After all, given the massive head start the latter has over the private insurers, coupled with its army of agents that gives it enormous distribution leverage, its strength is staggering, to say the least. Moreover, as the private players have been around for only for few years, it would not be possible for them to make a substantial dent in LIC’s market-share either. A look at the business underwritten by all the players, including LIC indicates that LIC continues to be the dominant player in the life insurance business. Prior to the opening up of private participation in August 2000, the insurance sector was a government monopoly consisting of LIC and GIC with its four subsidiaries. Now there are several new Life insurance companies and General life insurance companies. LIC has huge investment and financial strength. Owing its bigger size it has the best advantage of pricing as well as getting better investment returns which can subsidise its original insurance product. Therefore, Like SBI continues to be market leader despite of so many private banks coming, LIC is still the big player. LIC is said to have a dominant position in insurance market and the factors leading to distortion in level playing field are as follows :-

1. Sovereign Guarantee

LIC has sovereign guarantee from central government. By sovereign guarantee, government gives the policy holders of LIC a commitment that it will fulfill all the promises made by the company. Private players and insurance regulator IRDA have been asking the government to remove sovereign guarantee given to LIC to create a level playing field. “The committee finds no merit in the demand of the private sector insurance players for reducing or doing away with the sovereign guarantee on LIC’s policies,” said the committee in its report of the LIC’s (amendment) Bill 2009.In the bill the government had sought to replace the 100 per cent sovereign guarantee by “to the extent as the central government may, by order from time to time. In 1956, when life insurance industry was nationalised, Parliament directed LIC to take the message of Life insurance to every part of the country. It also directed the government to guarantee the sums assured under all policies issued as well as taken over by the corporation(section 37 of LIC act).

Some forces are lobbying vigorously for the withdrawal of the guarantee which will later twist the facts and launch a publicity blitzkrieg, stating that it is a proof of the Government’s loss of confidence in the ability of the corporation to survive competition, and succeed in impairing its image. The consequences that follow may affect millions of families

in the country.

LIC enjoys this dominance because it is obvious that investors want a guarantee of their money irrespective of cycles of market. They know that it would be a safe play to invest in LIC as the government guarantee to bail out in case of any mishap. This denies the life insurance market from a level playing field to the competitors. The private players have been in the market for 10 years now but could not bring a big change in market share of life insurance. People’s trust is build up with LIC due to such sovereign guarantee. I do not deny the fact that LIC has not used this benefit of sovereign guarantee but this definitely helps them grow their market size because of the faith people lay in them being a state owned enterprise.

Not only the employees of LIC, but every member of the public should therefore appeal to the Government to understand the game plan of these forces, lobbying for the withdrawal of the Government guarantee to this national institution. Sovereign guarantee reduces the sector from healthy competition and gives an undue advantage to LIC to attain the faith of people due to which other private players suffer a loss. Through the LIC Act of 1956, government provides sovereign guarantee to LIC which comforts approximately 16 crore policy holders and its withdrawal would require an amendment to the LIC Act,1956.

2. Distribution network

The distribution network is most important in insurance industry. Insurance is not a high cost industry like telecom sector. Therefore it is building its maket on goodwill and access on distribution network. We cannot deny that insurance are not bought, it is sold. The industry covers approx. 3% of the population of our country. The market has a great scope to grow. This can be better done by more innovative channels like a super market, a bank, a post office, an ATM, departmental store etc. these could be used to increase channels of insurance. But such growth in channels shall increase

with time. Till than agents seem to be the most important distribution channel in this industry. Agents connect with people and influence them to buy any insurance policy. For the same such agents charge commission on the policies they get for the company. There is a fixed percentage of commission for which these agents work. It is important to mention that the IRDA regulation which says that one agent can enrol with only one insurance company. This leads to narrowing down of exposure to customers to various products. When I go to a shop, I get all varieties to choose from.

Similarly, agents are like a shop where consumer looks for options of insurance available. Such a policy leads to leveraging of distribution network. This plays as an advantage for LIC. In life insurance, the LIC has two important elements in its favour which are as follows:-

The LIC has vast distribution network in the rural and semi rural urban areas.

This would be hard to duplicate. One potential way to duplicate it could be increasing other distribution network like bancassurance.

· Also, since LIC started with 100% of market share, it will lose market share simply because of expansion of market itself and less because of loss of existing customers.

LIC has attempted to enlarge the distribution channels to build a real marketing environment by involving cooperatives and panchayats in its market areas. The IRDA regulations on agent's recruitment, qualification and training make the task easier for LIC (Locking in its agents).

Distribution channel is an important stimulant of competition in market. In India, An agent can work for only one insurer. LIC has more than 10 lakh agents which are supposedly to grow more in future which in comparison to private players is mammoth. The new players have comparatively few agents. The policy of IRDA hinders distribution network. It leads to an exclusionary behaviour of distribution network. Such behaviour gives LIC a dominant position in the market.

I would like to explain the market factors influencing decision to purchase insurance through some statistics. There are several factors which influence customers to choose any life insurance like agents, advertisement, co-workers, friends and family. It is important to mention here that agents cover 55% market factor influencing purchase of insurance. Also it is important that LIC spends Rs.116 crore in 2008 where as major players like Bajaj Allianz and ICICI Prudential are Rs.17.7 cr and 15.4 cr respectively. With more market share, it is obvious that LIC has better capacity to invest more on advertisement which leads them to dominate the market much more than other players.

There is an exclusively distribution network which is helping to build LICs core strength which needs to be made accessible to give a level playing field to all market players. Section 4(2) (c) of the act specifically mentions that an enterprise shall be deemed to abuse its dominant position if it indulges in practice resulting in denial of market access in any manner. Here the market access is denied through distribution network which is more exclusionary in nature.

Also it is very important to mention that such exclusionary behaviour makes agents charge a very heavy commission which creates a pressure on customers, mis-sold and leads to poor service. Customers are not well informed due to such a practice. There is a robust agent network of LIC which needs to broke by IRDA. IRDA needs to regulate such provision and allow agents to sell all insurance because it is important that customer's get a variety from such source. If agents are allowed to sell more than one insurance, customers will get more informed and get more exposure to market.

3. Other factors

It has been reported several times through several journals that every time the stock market falls sharply; government asks LIC to step in as a buyer to curtail the fall in the market. Its investment decision is influenced by the government last year. LIC has to follow the guidelines of IRDA and there is a proper system to take investment decisions. There has been incidence where it seems that LIC gets offers from big companies as well to pump in money in market when they are in need of cash. This gives LIC a dominant position as it acts as a saviour during crisis due to its surplus liquid cash reserve. Nevertheless, it cannot be denied that LIC is a government agency and is therefore trusted by a lot of companies and has a lot of share in these companies. Therefore it has a major role to play in influencing the decisions of such companies and big market players.

ABUSE OF DOMINANCE BY LIC IN LIGHT OF THE

As under section 4(2) (c), LIC seems to dominate the market by virtue of IRDA regulation through exclusive distribution network and sovereign guarantee. Due to such regulation the market access to other private players is denied of a level playing field. The leveraging of the network of agents gives a non -level playing field to the players from regulatory behaviour. Since we have determined that LIC is a dominant enterprise, it becomes important to look in for prospects of abuse of its position in light of the act. This is better done by inquiring the enterprise from section 19(4) of the act. LIC does not abuse its dominant position but it cannot be denied that the market is deprived of level playing field. Abuse of dominance is wrong in eyes of competition law which is prohibited under act and not dominance. Saying that LIC abuses its dominance would be an overstatement but we cannot deny that there is an anti-competitive environment due to the sovereign guarantee and IRDA regulations relating to agents which leads to exclusive distribution network. According to section 4(2) (c), an enterprise is said to abuse its dominant position if it indulges in practices resulting in denial of market access (in any manner). LIC, not on its own but due to IRDA regulation of locking agents to one insurer, has an advantage of exclusive distribution network. It is an old enterprise with an agent counts over 11 lakh whereas private players have not more than few lakhs agents on a whole. The more number of agents getting enrolled in IRDA choose to be agents of LIC because of their dominant position due to which they get an easy sell of insurance amongst customers and hence, more commission. While, agents are the chief distribution network, people will buy insurance from them. Hence, they should be allowed to sell all insurance so that customers get a wider range of choice at once and other players get a level playing field. If the agents are more with LIC and it has a huge market, people are left with less option than to choose LIC.

Through the purview of competition act, it shall be much easier to explain the dominance position of LIC in market. According to section 19(4), the commission shall enquire as to whether an enterprise enjoys a dominant position or not under section 4 through following factors:-

a) Market share of the enterprise- with more than 70% of market share, it is obvious that LIC dominates the market even post liberalisation. There has not been much change in market since then. The size of market has grown but the hold of LIC and its consumers market still exist dominantly. LIC sold 4.76% less, while private companies saw a 20% decline in the number of policies sold.9

b) Size and resources of the enterprise- LIC is a large enterprise with more than 11 lakh agents as their dominant distribution network. LIC has also 8 zone office, 100 divisional office, 2048 branch offices and 26 banc assurance partners unlike other private players like ICICI with 2100 branch office, agents of 2 lakh and 18 banc assurance or Bajaj Allianz with 1200 branches, agents 2.5 lakhs. Resource of LIC is way ahead of others due to IRDA regulation which the commission need to check to provide a free and competitive market. Such availability of resources in form of market and distribution network, the market is denied of a level playing field for its players.

c) Size and importance of the competitors- It is evident from my research that LIC dominates market through exclusive network distribution. Other private players have comparatively weak market. Some of the life insurance companies in India that reported positive growth in financial year 2008-2009 are LIC, Met Life, Kotal Mahindra and Shriram. LIC booked a gain of Rs.957.35 crore as against Rs 844.64 crore the previous year. Met Life benefit arose rose to Rs14.52 crore and Shriram profits were up by Rs8.11 crore. Kotak Mahindra, which had booked a loss of Rs 71.87 crore previous year, saw its profits rising by 14.34 crore. However, the scenario was not the same for all the companies. SBI Life, after reporting profits for 3 years in a row, faced a loss of Rs 26.31 crore in 2008-09. ICICI Prudential also incurred a record loss of Rs 779crore. While considering the performance of Indian Life Insurance sector in 2008-09, we cannot ignore some downward trends the industry undergone. The private players in this sector witnessed a loss of Rs 4,879 crore. In order to tackle the losses, he life insurance company giants had to infuse Rs 5,956 crore. This shows that the private players have small size and weak market.

d) Economic power of the enterprise including commercial advantage over competitors- With great strength of agents unlike other players in market, it is obvious that LIC has grown a great distribution network of agents helping it to enjoy a dominant position. The total premium collected by LIC is 185,985 crores. This shows that LIC has a huge economic built up and has undue advantage over other competitors. To add, the commission paid by LIC to its agents rose by 20.7% in financial year 2009- 2010 which shows that exclusive distribution network is benefitting LIC over other players.

e) Vertical integration of the enterprise or sale or service network of such enterprises- no such vertical integration seen ,

f) Dependence of consumers on the enterprise;- There is no doubt that consumer depends for buying such service because of a distribution network. Agents being the most important have a significant role to play pre and post premium payment. When 11 lakh agents are registered with LIC and people have a faith build in LIC, the consumers are largely dependent on this enterprise for safety of their investments.

g) Monopoly or dominant position whether acquired as a result of any statute or by virtue of being a government company of a public sector undertaking or otherwise- Non level playing field in this sector exists due to which LIC enjoys dominant position. It seems like LIC is first among equals. There is no doubt that LIC being a state owned enterprise has a upper hand in the market because of public trust build in them. The government guarantees to public to safeguard their money invested through insurance in LIC in case of any loss incurred by the company but the other players do not have such advantage due to which their grip over market is not built up. This leads to non-level playing field in the market against the principle of this act.

h) Entry barriers including barriers such as regulatory barriers, financial risk, high capital cost of entry, marketing entry barriers, technical entry barriers, economies of scale, high cost of substitutable goods and service for consumers- though none of the alternative channels as such are in position to replace the personal selling through the agents, the players have been vying with each other through a combination of innovative channels in their Endeavour to reduce the cost of distribution and satisfying customers. Alternative channels will grow over a period of time. The distribution network is locking the growth of other players and giving the market a non-level playing field.

i) Countervailing buying power- there is no countervailing power as such

j) Market structure and size of markets- Out of this percentage more than 70% is dominated by LIC which shows the dominant position of LIC and the non level playing field existent in the market denying healthy competition in market. A rise of almost 47% has been witnessed by LIC in its average premium per policy.10

k) Social obligation and social costs;

l) Relative advantage, by way of the contribution to the economic development, by enterprise enjoying a dominant position having or likely to have an appreciable adverse effect on competition;

m) Any other factor which commission consider relevant.

Possibility of Abuse of Dominance.

There could be circumstances where LIC would try to get in tie in arrangements to leverage co financing of health sector or other sector to gain customers trust and market. LIC is a trend setter. Other players have to look up to LIC for setting up standards. Such hypothetical conditions could lead to severe competition challenges in future. Also, hybrid products of mutual fund shall become popular in the coming future as it helps saving tax and such schemes shall influence the market and competition in subtle manner. There would be a nonlevel playing market condition not good for healthy competitive market.

CONCLUSION AND SUGGESTION

During the research, I came across several incidences making it evident that LIC is a dominant market player with more than 70% of market. 22 of the private insurers had managed a higher growth at 7% against 2% in the previous period, but they cumulatively lost 6% market share to the LIC, the only public sector insurer. 11The majorly belongs to LIV with more than 70 % of market share in respect to other private player market Dominance may not be per se wrong under competition Act but abuse of dominance is wrong. With major market share there seems a ground that the market does not provide for a level playing field in the market. Level playing field is to be provided for a fair competitive environment which the commission undertakes to do. Sovereign guarantee of government to state owned LIC is giving it an unfair advantage to build trust in customers due to which LIC has a major life insurance market share. Also the exclusive distribution network LIC prevents market from competition knowingly or unknowingly. Having a large number of agents cannot be said to be an anti-competitive practice but such a regulation has given an advantage to LIC as it has over 11 lakh agents in comparison to other player is far more. Agents build a relation with customers and when one agent is allowed to provide service of only one insurer it provides the customer with less choice. More LIC agents mean more selling of LIC products. People invest more with a faith that their investment is guaranteed to come back if not by LIC than by government. More distribution network means more dominance of LIC in market. Commission needs to look into such a situation to give an open and level playing market to all players. Such leveraging of distribution network shall lead to anti-competitive eq As sovereign guarantee is key to LIC's pre-eminent position in life insurance business, the Committee is of the view that this stature bestowed on LIC by Parliament should not be diluted in any manner under the pretext of providing a level playing field in insurance sector," the report said.

SUGGESTION

The commission needs to advocate competition in market.

The commission needs to enquire in detail about reasons behind such anti competitive behaviour of life insurance market.

The commission needs to advocate the government to remove such sovereign guarantee to give the life insurance a free market and level playing field. The opinion given by the commission under section 49(1) shall not be binding upon the central government in formulating such policy. Under section 49(3) the commission shall also takes measures for the promotion of competition advocacy, creating awareness and imparting training about competition issues.

• The life insurance market will see a healthy competition with the opening up of developing markets to competition, there is a greater impetus to demand growth and volumes would start dictating economic sizes and pricing. This fuels mergers and acquisition and makes survival of small sized firm difficult. Though life insurance sector had not seen any merger and acquisition as yet but in the near future, with the growth of the growth of market, such problems shall come up.

• The commission cannot challenge the regulation for insurance as there is a separate body called IRDA governing insurance sector, but the commission can surely bring in picture the adverse effect of such regulation on competition in market before the consumer as well as the regulatory body to help market get a level playing field for all players.

• There should be fair effort made by commission to enlarge the distribution network to provide a level playing field to all players and also discourage dominance of LIC due to exclusive distribution of network through agents.

• Also , the commission can make a report on how the market suffers from anti competitive practices due to IRDA regulation and also ask government to increase FDI cap from 26% to 49% to bring more players in market which would help more population to be covered from life insurance.

REFERENCE:

[1] Leanne,H., Anne, L. and Peter, C.(2001). Relationship Marketing and Customer Loyalty in a Retail Setting: A Dyadic Exploration. Journal of Marketing Management, 17, 287-319.

[2] Garbarino, E. and Johnson, M.S. (1999).The Different Roles of Satisfaction, Trust, and Commitment in Customer Relationship. Journal of Marketing,63(4),70-87.

[3] Article, ‘An Analysis of the Evolution of Insurance in India’ by Tapen Sinha, ING Chair Professor, Instituto Tecnologico Autonomo de Mexico and Special Professor, University of Nottingham.

[4] Bimaquest-Vol VIII, Issue I, pages 51-55

[5] Insurance bill-2000, Govt. of India, October 2000.p.26

[6] N JANARDHAN RAO, “INDIA An emerging superpower house,” published by ICFAI Press.

[7] www.economictimes.com

[8] www.irdaindia.org

◈◈◈