Indian Life Insurance Industry – The Changing Trends

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Abstract -Insurance industry contributes to the financial sector of an economy and also provides an important social security net in developing countries. The growth of the insurance sector in India has been phenomenal. The insurance industry has undergone a massive change over the last few years and the metamorphosis has been noteworthy. There are numerous private and government insurance companies in India that have become synonymous with the term insurance over the years. Offering a diversified product portfolio and excellent services the many insurance companies in India have managed to make their way into almost every Indian household.

Keywords: Life Insurance, Substandard, Competitiveness, GDP, Indigenous, Aggressive Marketing, ULIP, Penetration, Pushed Insurer, Gross Premium.

INTRODUCTION:

According to Mr J. Hari Narayan, Chairman of insurance watchdog IRDA, Indian insurance industry in set for some serious changes. Speaking to students of Institute of Insurance and Risk Management at their graduation ceremony on Tuesday, Mr Narayan said the Indian insurance industry had matured from its state of childhood to early adulthood. He said that in countries like UK, the agents have adopted themselves to latest form of marketing and very soon such changes will also be introduced in India. With an annual growth rate of 15-20% and the largest number of life insurance policies in force, the potential of the Indian insurance industry is huge. Total value of the Indian insurance market (2004-05) is estimated at Rs. 450 billion (US$10 billion). According to government sources, the insurance and banking services' contribution to the country's gross domestic product (GDP) is 7% out of which the gross premium collection forms a significant part. The funds available with the state-owned Life Insurance Corporation (LIC) for investments are 8% of GDP.

A HISTORICAL REVIEW OF INDIAN INSURANCE INDUSTRY

In 1818, a British company called Oriental Life Insurance setup the first insurance firm in India followed by the Bombay Assurance Company in 1823 and the Madras Equitable Life Insurance Society in 1829. Though all this companies were operating in India but insuring the life of European living in India only. Later some of the companies started providing insurance to Indians with approximately 20% higher premium than Europeans as Indians were treated as "substandard". Substandard in insurance parlance refers to lives with physical disability. Bombay Mutual Life Assurance Society was the first company established in 1871 which started selling policies to Indians with "fair value". Insurance business was subjected to Indian company act1866, without any specific regulation. In 1905, the slogan "Be Indian-Buy Indian" declared by Swadwshi Movement gave birth to dozens of indigenous life insurance and provident fund companies. In 1937, the Government of India setup a consultative committee and finally first comprehensive 'insurance act' was passed in 1938.

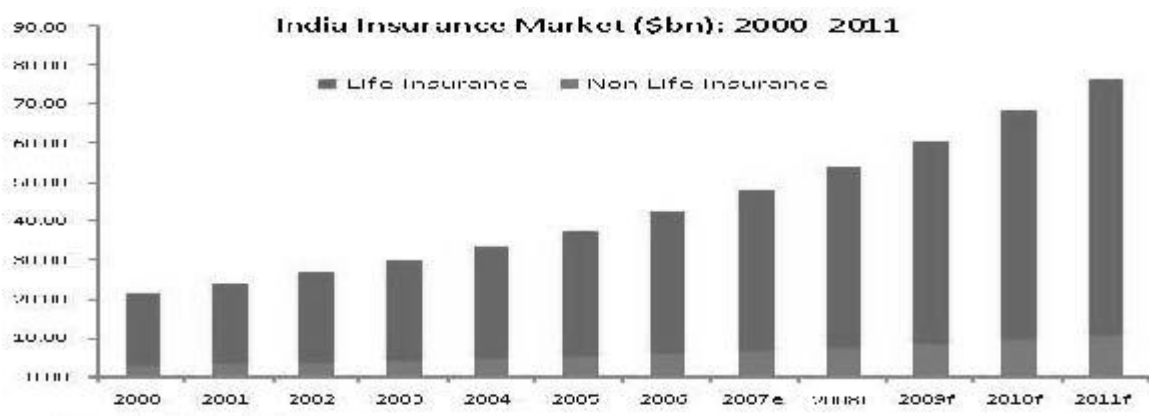


Figure-1

In oct.2000, IRDA (Insurance Regulatory and Development Authority) issued license paper to three companies, which are HDFC Life Standard, Sundaram Royal Alliance Insurance Company and Reliance General Insurance. At the same time "Principal approval" was given to Max New York Life, ICICI Prudential Life Insurance Company and IFFCO Tokio General Insurance Company. Today total 22 life insurance companies including one public sector are successfully operating in India. The growth of the sector can easily be judged through figure-1. According to a study by McKinsey total life insurance market premiums in India is likely to more than double from the current US$ 40 billion to US$ 80-US$100 billion by 2012.

CHANGING COMPETITIVE ENVIRONMENT:

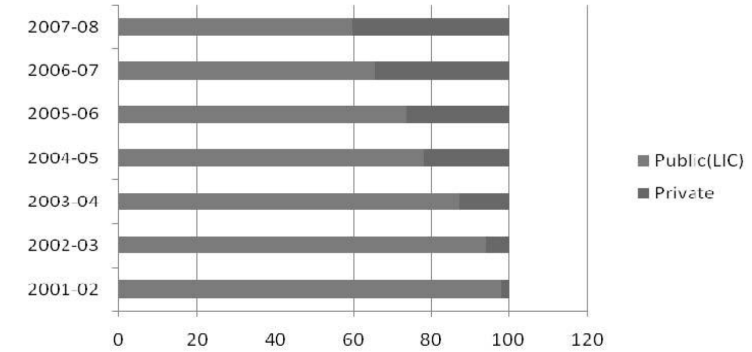
With the opening of insurance sector in India, the share of private insurer was very less. As shown in table-1, total share of private insurer was just 2% in 2001-02. It was because of any reason which includes credibility on private players.

TABLE-1: MARKET SHARE OF PUBLIC AND PRIVATE INSURANCE COMPANIES

Insurance sector	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Public(LIC)	98	94	87	78	73.66	65.28	59.65
Private	2	6	13	22	26.34	34.72	40.35

Source: Compiled from Insurance annual reports

Figure-2



Graphical representation of table-1

But soon because of innovative & customized products, novel distribution channels, aggressive marketing etc. private players gave a tough competition to public sector company (LIC). Gradually, the market share of private insurer went up and till financial year 2007-08, total share of private insurer reached as high as 40.35%. The market share of LIC decreases after the entry of private insurer but it doesn't mean that the growth of LIC got down. LIC continue its growth even after a cut throat completion from the private players.

TABLE-2: TOTAL LIFE INSURANCE PREMIUM

(Rs. CRORE)

INSURER	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
LIC	149789.99	127822.84	90792.22	75127.29	63533.43	54628.49	49821.91
	(17.19)	(40.79)	(20.85)	(18.25)	(16.30)	(9.65)	(42.79)
Private Total	51561.42	28253.00	15083.54	7727.51	3120.33	1119.06	272.55
	(82.50)	(87.31)	(95.19)	(147.65)	(178.83)	(310.59)	(4124.31)
Total (LIC+Private)	201351.41	156075.84	105875.76	82854.80	66653.75	55747.55	50094.46
	(29.01)	(47.38)	(27.78)	(24.31)	(19.56)	(11.28)	(43.54)

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

Source: Annual report 007-08 of IRDA As shown in table-2, total revenue generated in 2007-08 by LIC is 149783.99 crore against just Rs.51561.42 crore, generated by all 21 private players. It shows that even after opening of insurance industry and heavy competition from the new entrant, LIC observed a continuous growth in its revenue generation.

PRODUCT INNOVATIONS:

In fifties and sixties, the life insurance business was concentrated in urban areas and was confined only to the higher class of the society. Through the LIC act 1956, the LIC was formed with the capital of 50 million. One of the basic objectives of setting up the LIC was to extend the reach of insurance cover and make it available to the lower segment of the society. LIC observed minimum growth in 1960s and 1970s. This slow growth were caused by the factors like poor infrastructure, low saving, low investment, high illiteracy etc. however the positive change in industrialization, infrastructure, capital formation, saving rate resulted in tremendous growth of LIC. Still the penetration of insurance sector was very low. A key catalyst in the Indian insurance market growth has been the entry of private players in 2000-01. With the entrance of private players and foreign collaborations, penetration of insurance sector in India has gone up from 1.02% in 1999-00 to 4 % of GDP in 2007-08. Life insurance business in India grew by

14.2 per cent in US Dollar terms in 2007-08.

Before entrance of private players, it was observed that only endowment and money back policies were popular among consumers. But the new, private insurers focused on providing customized products, products that contain innovative features to the customers created favorable demands for other type of policies like tern insurance, child plan, pension plans and unit linked insurance policies (ULIPs).

TABLE-3

Years	No. of New Products
1956-57 to 1969-70	57
1970-71 to 1979-80	16
1980-81 to 1989-90	22
1990-91 to 1999-00	29

Source: compiled from the annual reports of IRDA

As shown in table-3, total life insurance products introduced in initial 44 years i.e. since the formation of LIC (1956-57) till the liberalization on life insurance industry, in 2000-01 are around 124 only. But the entry of private players brought tough completion among insurer and forced all of them to search for customized insurance products based on the needs of the customers.

Table-4

Company	Total new PRODUCTS launched from 2000-to 2009-10
Life Insurance Corporation of India	64
HDFC Standard Life Insurance Co. Ltd.	57
Max New York Life Insurance Co. Ltd.	55
Birla Sun Life Insurance Co. Ltd.	58

Source: compiled from annual reports of IRDA

The result of the same can be seen in table-4, within just 10 years of liberalization of the sector, the insurer like LIC also introduced 64 new policies in the market. Today a variety of products are available ranging from traditional to Unit linked providing protection towards child, endowment, capital guarantee, pension and group solutions.

CHANGING TRENDS IN LIFE INSURANCE POLICY:

Along with the other objectives of insurance like financial security, tax benefits etc. one of the major objectives is saving and investment. Traditional life insurance policies like endowment were becoming unattractive and not meeting the aspirations of the policyholders as the policyholder found that the sum assured guaranteed on maturity had really depreciated in real value because of the depreciation in the value of money. The investor was no longer content with the so called security of capital provided under a policy of life insurance and started showing a preference for higher rate of return on his investments as also for capital appreciation. It was, therefore found necessary for the insurance companies to think of a method whereby the expectation of the policyholders could be satisfied. The objective of providing a hedge against the inflation through a contract of insurance pushed insurer to link the insurance policy with market and thus the industry observed the beginning of Unit linked insurance policy (ULIP).

UNIT LINKED VS NON LINKED INSURANCE PLANS:

There are so many advantages that ULIPs have over traditional policies. Some of them have been described in table-5.

Table-5

Features	ULIPs	Traditional Policies
Description	Insurer allows policy holder to direct part of their premiums into different type of funds like equity, dept, money market, hybrid etc. and risk of investment is borne by policy holder	Insurer takes decision and usually invests into low risk return option. insurer also offers guaranteed maturity proceeds along with declared bonuses
Flexibility of investment	Policy allowed choosing their investment avenues as per their risk profile.	Policy holders are not allowed to choose their investment
		avenues

Transparency	Policy holder can track their portfolio. They are also informed about the value and number of fund units they hold	Individual can not track their portfolio.
Maturity benefit payouts	At the time of maturity, policy holder redeems the unit collected at the then prevailing unit prices. Some plan also offers royalty or additional units annually or at the time of maturity.	At the time of maturity policy holder get the sum assured plus bonuses(if applicable)
Partial withdrawal	Subjected to some condition, policy holders are allowed to withdraw from their fund.	Policy holders are not allowed to withdraw part of their funds. Instead, some policy provides facility of loan against the investment.
Switching options	Available(with some charges)	Not available
Charges structures	Charges are specified under various heads	Charges are not specified
Single premium top up	Allowed	Not allowed

Source: Compiled from Various Sources

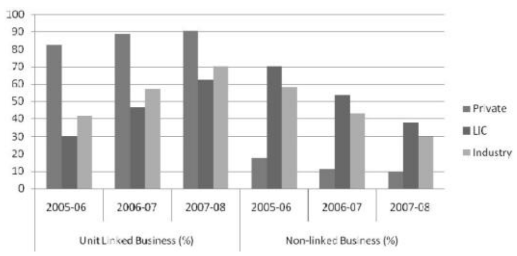
The flexibility, transparency, liquidity and fund options available with ULIPs made it the preferred choice of customers and gradually it changed the trend of insurance policy. This fact can easily be seen in table -6 showing recent three years trends in sale of ULIPs and traditional policies.

Table-6

	Unit Linked Business (%)			Non-linked Business (%)		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Private	82.3	88.75	90.33	17.7	11.25	9.67
LIC	29.76	46.31	62.31	70.24	53.69	37.69
Industry	41.77	56.91	70.3	58.23	43.09	29.7

Source: compiled from the annual reports of IRDA

Figure-3



Graphical representation of table-6 As shown in table-3, the share of ULIPs increased from 82.3 % in 2005-06 to 90.33% in 2007-08 as far as private insurer are concern. LIC too showed a tactical shift towards promoting linked products and soon the share of ULIPs rose from just 29.76% in 2005-06 to 62.37% in 2007-08

TABLE-7: ULIPS PLAN COMPARISON CHART

Company	Plans	Entry Age		Term	Maturity Age
Aviva	Life Saver Plus	Minimum-0 years	Maximum-60 years	10-30 years	18-75 years
ICICIPrudential	Life Stage RP	Minimum-0 years	Maximum-65 years	10-75 years	19-75 years
Kotak	Smart Advantage	Minimum-0 years	Maximum-65 years	10-30 years	NA
LIC	Money Plus	Minimum- 0 years	Maximum- 65 years	05-30 years	18-75 years
Max New York Life	Life Maker Platinum	Minimum-12 years	Maximum-60 years	10-58 years	70 years
Met Life	Met Smart Premier-RP	Minimum- 91 Days	Maximum- 70 years	NA	100 years

In order to encash the favorable environment for ULIPs, All the players in the industry are offering innovative and customized ULIPs with respect to entry age of the customer, term of the policy, maturity age etc. to get edge over others. Table -7 depicts the comparison chart of ULIPs plan launched by some major player of the industry.

CONCLUSION:

Where almost all the industries in the world trying hard for survival due to the major economic meltdown, Indian life insurance industry is one of the sectors that is still observing good growth. It is the changing trends of Indian insurance industry only that has made it to cope with the changing economic environment. Indian insurance industry has modified itself with the passage of time by introducing customized products based on customers' need, through innovative distribution channels, Indian life insurance industry searched its path to grow. Changing government policy and guideline of the regulatory authority, IRDA have also played a very vital role in the growth of the sector. Move from non-linked to unit liked insurance policies is one of the major positive changes in Indian life insurance sector. Similarly, opening on the sector for private insurer broke the monopoly of LIC and bring in a tough competition among the players. This completion resulted into innovations in products, pricing, distribution channels, and marketing in the industry. Though the sector is growing fast, the industry has not yet insured even 50% of insurable population of India. Thus the sector has a great potential to grow. To achieve this objective, this sector requires more improvement in the insurance density and insurance penetration. Development of products including special group policies to cater to different categories should be a priority, especially in rural areas. The life insurers should conduct more extensive market research before introducing insurance products targeted at specific segments of the population so that insurance can become more meaningful and affordable. By adopting appropriate strategy along with proper government support and able guidance of IRDA, India will certainly become the new insurance giant in near future.

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