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Indian Life Insurance in the Post Reform Period

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ABSTRACT *Liberalisation has brought about major changes in the insurance sector such as the entry of private players, innovative products, improved distribution channels and the introduction of world class regulatory and supervisory standards. In this paper an attempt is made to understand the growth pattern of Indian life insurance and the influence of macroeconomic variables. During the 14 years period since the opening of the sector the growth path of industry was neither smooth nor uniform and is influenced by country's economic growth.*

KEYWORDS : penetration, density, ULIPs, IRDA

Introduction

The process of globalisation and restructuring of national economy had significant impact on financial market and financial intermediaries' particularly institutional investors such as life insurance, pension funds, mutual funds etc. Life insurance has emerged as a dominant contractual savings institution having a significant impact on the health of the economy through its multi-dimensional role in savings and capital market. (Sadhak 2009). At the same time the growth and development of life insurance industry is influenced by various macro economic variables such as gross domestic product, gross domestic savings, rate of inflation etc. In this paper an attempt is made to understand the growth pattern of Indian life insurance market and to trace the association of life insurance consumption and some of the important macro economic variables since the opening up of the sector in 2001.

The current wave of globalisation started in 1960s induced the countries world over to restructure their domestic economies through economic liberalisation. In 1980s, India too accepted the concept of globalisation and started integrating her economy with the global market by removing many restrictions. However, the process of globalisation gained its momentum only in 1991 when the country faced serious balance of payment crisis. Since then wide range of reforms were introduced in real as well as in financial sectors. Reforms in the insurance sector were initiated after passing the IRDA bill in the Parliament in 1999. Following the IRDA Act, the insurance industry (both life and non-life products) was opened for market driven competition.

Liberalisation has brought about major changes in the insurance industry such as the entry of private insurance companies, joint ventures between Indian and some of world's largest companies, a large number of new innovative products, improved distribution channels and the introduction of world class regulatory and supervisory standards.

Entry of private life insurers

Following the IRDA Act several private companies applied for license to transact life and non life insurance business in India. The first private company to be issued license was HDFC Standard Life Insurance Company Ltd in October 2000. During the financial year 2000-2001 seven private companies were issued licenses. Four private companies were issued licenses during the financial year 2001-02 while in the year 2004 and 2005 one each namely Sahara India Insurance and Shriram Life insurance was issued license. Sahara is the wholly and purely Indian company without a foreign promoter to enter the Indian Life Insurance Market. All other Indian companies entered the insurance market as joint ventures with foreign equity participation. Another private insurance fully owned by Indian business house is Reliance Life Insurance Company Ltd which came into existence when Reliance Capital Limited acquired AMP Sanmar Life Insurance Company Ltd in January 2006. AMP Sanmar Life Insurance Company Ltd was promoted by Indian company Sanmar and its Australian partner AMP in January 2002. However, the partnership did not continue as Sanmar wanted to withdraw from the life insurance business and subsequently, AMP Sanmar was acquired by Reliance Capital Limited. Thus, the first acquisition of an existing company by Indian Corporate took place in the Indian life insurance market. At present, we have 24 life insurance companies with 1 public sector insurer, 2 private insurers fully owned by Indian Corporate and 21 private sector insurers as Joint Ventures with foreign insurers. Today, with the good number of companies, we witness an oligopolistic market structure in the Indian insurance industry.

Innovative Insurance Products

The competition among the insurers to increase their market share has resulted in a large number of customer friendly products. It is the product innovation that helped, particularly, the private insurers to increase their market share from 2.01 percent in 2002-03 to 30.23 in 2010-11which has however declinedthereafter to 24.61 in 2013-14. The most significant product innovation in the life insurance segment is the introduction of unit linked insurance policies (ULIPs). ULIPs offer a long term investment option with life coverage.ULIPs dominated the insurance business especially in case of private insurers during the period from 2005 to 2010. The returns from ULIPs directly linked to capital market performance and the period from 2006 to 2008 benefited the insurance companies as there was a boom in the country's capital market. The slow down in the economy from 2009 and IRDA's guidelines on ULIPs capping upfront charges, returns and the commission pay-outs etc(in July and with modification in September 2010) impacted the sale of ULIPs. Following these guidelines, the industry witnessed a shift in the product mix from linked to traditional products. Both traditional and unit-linked products are positioned for various customer segments to suit their needs such as child, women, health, retirement, whole life, endowment, etc. Life insurers are allowed to sell life plus health combi insurances. Life insurance can also provide accident benefit as rider. There is an increasing emphasis on pension plans and group general annuity dominates over individual general annuity. Following IRDA guidelines on micro insurance, life insurers have launched innovative micro insurance products and composite package of standard insurance for rural and social sector.

Distribution Channels

The post reform insurance industry also witnessed a rapid growth of multiple distribution channels such as agency, bancassurance, broking, direct, corporate agency, etc., Agents still dominate various insurance distribution channels. The life insurance industry has 21.88Lakh agents, of which 9.93 lakhs in private sector and 11.96 lakh in LIC in 2013-14. The private sector recorded an increase of 4.5 percent and LIC an increase of 2 percent over the previous year.In the multi channel distribution model individual agents continue to play a pivotal role in the distribution of insurance products particularly in semi urban and rural India. The individual new business premium procured through individual agents has declined, for instance from 88.62 percent in 2006-07 to 78.4 in 2013-14. The new business premium from individual agency channel in case of private sector has declined from 59.81 percent in 2007-08 to 40.09 percent in 2013-14. (in case of LIC, it is about 96 percent) The shift away from agency channel especially in case of private sector has been taken over by the corporate agency which includes banks and others. The share of corporate agency in new business premium in case of private sector has improved from 29.92 percent in 2007-08 to 47.62percent in 2013-14, of which banks account for 43 percent of the total new business premium of private insurers. (in case of LIC it is only 3 percent). Broking and direct selling contributes over 12 percent of individual new business premium in case of private insurers and over one percent in case of LIC.

Development and Performance of Life Insurance Market

World over the level of development and performance of life insurance market is measured using two key parameters viz., life insurance penetration and life insurance density. Insurance penetration is defined as the ratio of premium underwritten in a given year to the Gross Domestic Product. Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in US dollar for convenience of comparison). In this paper, besides density and penetration, the growth of Indian life insurance market is also examined in terms of number of branches, agents, new policies, premium etc. Life insurance industry has undergone several structural and operational changes since the opening of the sector and the growth path of the industry was neither smooth nor uniform. Looking at some of the key parameters of growth we can make out two distinct phases of growth where the phase I (2001-10) is characterized by a rapid growth in the number of branch offices, individual agents, (along with the other distributional channel) number of persons covered, premiums collected and as a result penetration improved from 1.78per cent in 2001 to 4.6 percent and density from $7.6 to $47.7 in 2010.In fact the period from 2005 to 2010 was period of take off especially for the private players who got a big push from the sale of ULIPs and there has been an increase in penetration, density followed by an increase in number of policies issued, more number of innovative and customer friendly products, growth in distribution channels, increased competition in the market. The market share of private insurers went up from 9.33 percent in 2004-05 to 29.9 percent in 2009-10. It is noteworthy to remember that during 2005-08 Indian economy had witnessed over 9 percent growth in the real GDP and inflation was moderate and people invested in ULIPs in the background of bullish stock market.

The phase II is a period of sluggish/negative growth in number of branches , agents and number of new policies issued and the premium collected by the insurers and as a result penetration has come down from 4.6 percent to 3.1 percent and density from $47.7 to $41 during 2010-14. In fact the period 2010-14 was a challenging time for the Indian insurers. The subprime crisis started in the US in the late 2007 became a financial crisis and soon spread to Europe and UK. In the late 2008 it took the form of global economic crisis and engulfed Asian countries too. The Indian stock market crashed as the Foreign Institutional Investors withdrew Rs 48248crore from the capital market. Slowdown in the economy coupled by a high rate of inflation; bearish stock market and lowered demand for unit linked policies dampened the premium growth in the life insurance industry.

Conclusion

Indian life insurance market is highly competitive today with an intense competition not only between insurers and their products but also between different investment and saving streams. Yet there exists a huge untapped potential for life insurance business with the rising middle class population base,rising purchasing power, increased insurance awareness and improved financial literacy.

Table:Performance of life insurance in India

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
branches	2199	**2306** (4.86)	**2445** (6.03)	**2612** (6.83)	**3001** (14.89)	**3865** (28.79)	**5373** (39.02)	**8913** (65.88)	**11815** (32.56)	**12018** (1.72)	**11546** (-3.93)	**11167** (-3.28)	**10285** (-7.71)	**11032** (7.26)
agents	476902	**826124** (73.2)	**1068441** (29.3)	**1265183** (18.4)	**1212679** (-4.1)	**1420235** (17.1)	**1976934** (39.2)	**2485980** (25.7)	2883214 (15.9)	**2898653** (0.5)	**2581840** (-10.9)	**2358885** (-8.6)	**2122757** (-10)	**2188500** (3.1)
Penetration	1.77	2.18	2.59	2.26	2.53	2.53	4.10	4.00	4.00	4.60	4.40	3.40	3.17	3.10
Density	7.60	9.10	11.70	12.90	15.70	18.30	33.20	40.40	41.20	47.70	55.70	49.00	42.70	41.0
New policies issued (lakhs)	na	na	253.71	**286.27** (12.8)	**262.11** (-8.4)	**354.62** (35.3)	**461.52** (30.1)	**508.74** (10.2)	**509.23** (0.09)	**532.25** (4.5)	**481.52** (-9.5)	**441.93** (-8.2)	**441.87** (-0.01)	**408.72** (-7.5)
First year premium* (Rscrores	9707	**19857** (104.5)	**16942** (-14.6)	**19788** (16.8)	**26218** (32.5)	**38786** (47.9)	**75649** (95.0)	**93713** (23.8)	**87331** (-6.8)	**109894** (25.8)	**126381** (15.0)	**113942** (-9.8)	**107361** (-5.8)	**120319** (12.1)
GDP growth rate	4.15	5.39	3.88	7.97	7.05	9.48	9.57	9.32	6.72	8.59	8.91	6.69	4.47	4.74
Gross domestic savings	23.2	22.6	25.4	28.7	32.41	33.44	34.6	36.8	32.02	33.69	33.68	31.35	30.09	30.5
Inflation CPI(avg)	3.7	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	12.3	10.5	8.4	10.2	9.5

Source: IRDA; Planning Commission.nic.in
***Including single premium; Figure in brackets are percentage change over the previous year.**

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