



## Life Insurance Business in India: A Success story

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### ABSTRACT

The life insurance business in India can be clubbed under three heads since its inception in India like, Britishraj, Nationalization and Privatization. The paper is only based and influenced by primary data. Primarily, the paper is an analysis of various reports and recommendations of various committees relating to the industry since its inception in India i.e. 1818. Those are- Indian Insurance Commissioner's Report-1929, Susil Sen Committee-1937, H.D. Malavya Recommendation, -Insurance in India( Undated), Malahotra Committee Report-1994, Mukharje Committee Report, Annual Report of Ministry of Finance, Sec- 3, Insurance Division, Annual IRDA Report of various years, Annual Report of LIC of India of various years. Secondly, the paper takes certain research articles of eminent into the consideration in order to strengthen and rich the subject matter and to prove the authenticity of the results

### KEYWORDS

Authenticity, penetration, monopoly, segment, innovation

### Introduction :

The life insurance business in India can be clubbed under three heads since its inception in India like, Britishraj, Nationalization and Privatization. The twenty first century started in giving birth to a number of private life and non-life insurance companies with joint venture of Indian companies with foreign partners. Particularly in life insurance sector it touched a dream number of twenty two from only one public sector corporation within a short span of eight years. The liberalization of the industry has created opportunities for growth in terms of employment, savings, alternate channels of insurance distribution and spreading insurance coverage to rural areas and to economically deprived sections of the society. The vibrancy in the field proves that, it will not be a wrong if we call the age as, : "the era of life insurance in India".

### Objectives of The Study:

The present paper intends to study the followings-

- \* To study the different forms of life insurance organization in India since 1818.
- \* To study the present form of life insurance business in India & its success.

### Methodology:

For the ascertainment of change and to measure the effect of change the methodology like, percentage, and simple average etc are frequently used in the paper.

### Part - I :

#### Life Insurance Business Before To Independence – Britishraj :

The first set up of modern form of life insurance in India was in the year 1818 through a British company namely the Oriental Life Insurance Company and was followed by Bombay Assurance Company in 1823 & Madras Equitable Life Insurance Society in 1829. These companies were opened only to insure the European lives living in India and they were unjust to Indians, thinking as substandard life. Later certain insurance companies were incorporated and insured the life of Indian by charging 20% more than the real mortality cost. In the year 1871 the

Bombay Mutual Life Assurance Society started selling life policies to Indians at a fair value. In the year 1937, Government of India set up a Committee under the chairmanship of an eminent well-known solicitor of Calcutta Mr. Susil Kumar Sen to provide suggestions to streamline the insurance business in India. The committee consulted with various insurance companies and placed the report before the legislature for discussion. It was debated in assembly and then the first Indian comprehensive insurance act was passed in the year 1938 in the name as Indian Insurance Act, describing all the details about the scope of various insurance, deposits, investments, supervision of insurance companies, commission of agents, benefits at different misfortune and appointment of directors etc. More than 200 insurance companies were under the Indian Insurance Act 1938 but it is unfortunate to say, our past experience tells us that, the companies were failed to reach at their aim only because of certain serious disasters which were not natural. The industries were only for the sake of British government and far to the well being of community as a whole. All the life insurance companies established before to nationalization were indulged with frauds and failed to provide insurance at par to USA & UK in cost, rather exploited people. The cost of Indian insurers were 27% to 28% of premium income as compared to USA the corresponding figure is 16% to 17% and UK even lower as 13% to 14%. Table -1 may be referred.

It was learned from the views of Mr. H. D. Malavya that, the insurance companies were not people and state oriented. He very categorically recommended for the nationalization of life insurance business in India, Crafty and Costly became two economic disasters which changed the dimension of life insurance business towards nationalization.

**Table-1**

Overall Expenses of Life Insurance Business in India, USA and UK (on a Percentage to Premium Income)

Year	India	USA	UK
1950	28.9	16.8	13.0
1951	27.2	16.5	14.1
1952	27.1	16.7	14.2
1953	27.3	17.0	14.5

Source: Malavya H.D, Insurance in India, Undated

**Part – II:  
Life Insurance Business After Independence –Nationalization:**

On behalf of Indian National Congress Mr. H. D. Malavya, an eminent writer presented a document before the independent Indian government justifying the nationalization of insurance industry in India through following strong claims-

- i) Insurance is a co-operative enterprise and being a socialistic country India should have its own government under taking insurance business.
- ii) The present insurance companies are highly expensive and needs government control,
- iii) The present private companies have no improved services to the public or policy holders
- iv) Lapse ratios of life policies are very high leading to national waste.

Government of India accepted the proposal and the union finance minister, Honourable C. D. Deshmukh announced the nationalization of life insurance business with a great hope of high penetration and coverage of life insurance to the India at large and Life Insurance Act, 1956 was passed. It gave birth to the Life Insurance Corporation in the same year by merging 245 Indian & Foreign life insurance companies and Provident Fund Societies.

The sector worked wonder under a nationalized form and earned a tremendous public support and faith. It may be seen that, from about Rs.200 crores of new business in 1957 the Corporation crossed Rs.1,000 crores only in the year 1969-70 and it took another 10 years to cross a mark of Rs.2,000 crores of new business but after the re-organization by 1985-86 the Corporation surpassed Rs.7,000 crore of sum assured of new business. Really is it fulfilled the objects of nationalization ? Due to lack in innovation and stiff business practices it couldn't achieved its dream. It failed to bring down the overall expenses cost as compared to the developed insurance field of the globe. In the year 1957 it was 27.7% on total premium income and by 1963 it increased to 29.3% again fell to 27.9% by 1982. By 1992 it had fallen to 21.5% and again rose to 22.9% in 2002. Secondly, the unit failed in trapping a sound market, the penetration of life insurance as compared to the globe was laughable. (See, Table -2) Monopoly made the Life Insurance Corporation of India stagnant and backward in product innovation market expansion. It couldn't provided a wide range of products to suit the choices of different group of people. Mismanagement under government banner ruined its customer service and marketing strategy. Channels of distribution were not improved to a global extent. Hence Monopoly and Mismanagement became two economic disaster which led the industry towards Privatization.

**Table 2  
The penetration of LIC as compared to Globe for the year -2002**

.Countries	Insurance Penetration (Premium as a % of GDP)	Insurance Density (Per capita premium in USD)
United Kingdom	12.71	3028.5
Japan	8.70	3165.1
United States	4.48	1611.4
South Africa	14.04	392.9
Australia	6.04	1193.5
South Korea	9.89	935.6
India	1.77	7.5
China	1.12	9.5
Malaysia	2.1.3	86.4
Indonesia	0.54	4.0

Brazil	0.36	12.9
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Source: Strategic choice, Das Ranjan & C. Raveendran, IIM Calcutta

**Part – III :  
Life Insurance Business Since 2000 – Privatization:**

In line with economic reform, government of India set up a committee in April 1993 under the chairmanship of retired RBI governor Mr. R.N. Malhotra to suggest reform in the insurance sector. The committee recommended in 1994 to open up the industry to private sector in order to have a competition which will not only lead the penetration of insurance but also wide variety of product will be offered. In the year 1999 government passed Insurance Regulatory & Development Authority Act in the parliament and IRDA was established. The sector was opened to private sector and allowed to gather a maximum of 26% of foreign stake. In the year 2000 HDFC Life Insurance was registered and followed by 22 private players in the sector till date. The life insurance business has been on fire in India. One of the most critical change that die private life insurance companies brought about, was the Unit Linked Insurance Products. It is now accepted as hot cake, took a market share of 54% and backed the traditional products at 46% in the market as per life insurance council report

The improved performance in the domestic economy is also reflected in the insurance industry. Higher per capita income, domestic savings and availability of more instruments for parking surplus funds have facilitated growth in the activities of financial services: Savers' risk appetite has also been increasing which can be seen by the growth in unit linked products provided by the life insurers. The premium underwritten in India and abroad by life insurers in 2013-14 has grown by 47.38 per cent as against 27.78 per cent in 2012-13. First year premium including single premium accounted for 48.45 per cent of the total life premium, whereas renewal premium accounted for the remaining. First year premium including single premium recorded a growth of 94.96 per cent in 2013-14 compared to 47.94 per cent in 2012-13, driven by a significant jump in the unit-linked business. The private life insurers have increased their market share from 14.25 per cent in 2012-13 to 18.08 per cent in 2013-14. This has not affected the growth of LIC, as the premium collected by LIC in 2013-14 has increased by 40.79 per cent over the premium collected in 2012-13. (See table-3)

**Table-3  
Total Premium Received (Rs. In crores)**

Insurers	2012-13	2013-14
LIC of India	90,792.22 (20.85)	1,27,822.84 (40.79)
Private Insurers	15,083.53 (95.19)	28,218.75 (87.08)
Total	1,05,875.76 (27.78)	1,56,041.59 (47.38)

Source : Annual report of IRDA, 2013-14

It is found that, in the private sector there is an increase percentage in taking new policies where as in govt. sector it is declined. However in an average in the F Y 2013-14 the total no of life policies are increased at 30.14% as compared to the previous year. (See table-4)

**Table 4  
No Of Policies Issued**

Insurers	2012-13	2013-14
LIC of India	3,15,90,707 (31.75)	3,82,29,292 (21.01)
Private Insurers	38,71,410 (73.37)	39,22,274 (104.64)
Total	3,54,62,117	4,61,51,566

Source: Annual report of IRDA, 2013-14

**Table – 5**

Market Penetration as a Percentage of GDP
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Countries	2012	2013	2014
U.K.	8.92	8.90	13.10
U.S.A.	4.22	4.14	4.00
Japan	8.26	8.32	8.30
India	2.53	2.53	4.10
China	2.21	1.78	1.70
South Africa	11.43	10.54	13.00
Australia	4.17	3.51	3.80
World	4.55	4.34	4.50

Source : Annual report of IRDA, 2013-14.

As regards to the life insurance penetration, we are closer to world average now but very far from the world highest. Still we are to go ahead. Our life insurance penetration before to the privatization was laughable i.e. 1.77 but now it is at 4.10. (See table-5)

#### Conclusion :

The insurance industries under Britishraj were lost their popularity only because of the two disasters- costly and crafty. It led the industry to nationalization but unfortunate to say that, it could not touch at its aim because of monopoly and mismanagement. Subsequent economic reform opened up the industry towards privatization. After privatization the industry is on the road of progress. But it is found that, the industry is suffering from two unpleasant manmade disasters like, Insurance illiteracy and Imposture even if every thing seems to be clear, open, regulated and legal. The government, regulating authority should do needful in this regard. Last but not the least, the insurance Companies should take certain actions to increase the awareness and insurance literacy. Insurance literacy is trie ability to read, analyze, manage and communicate the personal risk factors that affect material well being. It includes the ability to discern protection and saving choice, plan for future and taking of financial decisions. Countries like USA, New Zealand & UK have taken considerable initiatives in this respect. We should be first in this regard as, our India is at first in number of life policies and agents in the world.

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