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Study between Public Sector Life Insurance and Private Sector Life Insurance

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Abstract – The Insurance sector plays a vital role in the economic development of our nation. It acts as a mobiliser of savings, financial intermediary, promoter of investment activities, stabilizer of financial markets and a risk manager. India is still an under-insured country in the world. It is at the 18th position among Life Insurance markets and 28th in Non-Life Insurance markets in the world. This indicates that there is a huge potential, yet to be explored.

Key Words: Economic Development, Financial Market

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INTRODUCTION

The Insurance sector plays a vital role in the economic development of our nation. It acts as a mobiliser of savings, financial intermediary, and promoter of investment activities, stabilizer of financial markets and a risk manager. India is still an under-insured country in the world. It is at the 18th position among Life Insurance markets and 28th in Non-Life Insurance markets in the world. This indicates that there is a huge potential, yet to be explored. Life insurance is a specific illustration of the process of nationalization where non-ideological, sector or activities-specific compulsions were decisive. It was based on an unannounced quiet inquiry spread over a number of years which showed that neither a code of conduct nor legislation could make private insurers operate to protect the interest of the policyholders. However the Life Insurance Act gave clear evidence of the absence of any doctrinaire bias against the private sector. In the context of the new industrial policy which was then on the anvil, it was essential that nationalization of life insurance did not give contradictory signals and tilt the power and ideological balance in the Indian economy. Life insurance products and the markets may seem completely different for each country. They are under the influence of their system factors, such as social security system and regulations of insurer practices, as well as their social and economic factors, such as the economic development stage, size of individual financial assets, level of competition among financial institutions, and population composition by age. Even so, the insurance markets in the world must have some kind of common factors, because the essential of insurance lies in risk aversion and that is a universal desire among all people. In this research paper, I connect the seemingly different life insurance markets in each country by using a concept called the "Face amount ratio" (hereinafter called the "FA ratio"), after comparing the death benefit acquired from personal insurance, in order to clarify the linkage and common factors of the life insurance markets worldwide. The FA ratio is a very simple index which is obtained by dividing the personal insurance amount in each country by the nominal GDP, but is one of the international "constraints" on the life insurance markets by which market structures are determined according to the change of long-term interest rates and the sales strategy of suppliers (i.e. insurers) who utilize such change. In addition, the market structure in a country and the future expansion can be learned from structures of the other countries' FA ratios in certain periods. And the FA ratio is effective to indicate the common factors among the life insurance markets in each country as well as to notify us of changes in the markets. Large deviation of this index means that the insurers' strategy achieved an overly successful outcome, which implies a phase where the risk control is insufficient as seen in Japan. Confusion could occur in a process in which the actual values inevitably get closer to theoretical values in such large deviation. Since larger deviation results in larger adjustment, risk control should be reinforced in the phase. FA ratios play an important role in managing or supervising the soundness of life insurance companies.

LIBERALISATION AND PRIVATISATION

India's economic development made it a most lucrative Insurance market in the world. Before the year 1999, there was monopoly state run LIC transacting life business and the General Insurance Corporation of India with its four Subsidiaries transacting the rest. In the wake of reform process and passing Insurance Regulatory and Development Authority (IRDA) Act through Indian parliament in 1999, Indian Insurance was opened for private companies. Liberalization on the Insurance sectors has allowed the foreign players to enter the market with their Indian partners. Most of the foreign Insurers have joined within the local market. India offers immense possibilities to foreign Insurers since it is the world's most populous country having over a billion people.

Insurance industry had ten and six entrants in life and non-life sector respectively in the year 2000-2001. The industry again saw two and three entrants in the life and non-life business respectively in the year 2001-2002. One additional entrant was made both in the life and in non-life business in 2004 and 2005 respectively. At present there are fourteen companies each in Life and General Insurance. The Funds earlier generated by the state owned insurers have been diversified with other new insurers. We should wait and see how the new players are going to boost up our economy.

MARKET SHARE (%) - AUGUST 2013					
LIFE INSURERS			NON – LIFE INSURERS		
1.	LIC	76.07	1.	New India	21.41
2.	ICICI Prudential	6.91	2.	National	17.11
3.	Bajaj Allianz	4.75	3.	United India	17.11
4.	HDFC Standard	2.98	4.	Oriental	17.02
5.	Brila Sunlife	1.72	5.	ICICI- Lombard	8.04
6.	Tata AIG	1.66	6.	Bajaj Allianz	6.15
7.	SBI Life	1.46	7.	IFFCO-Tokio	4.00
8.	Max New York	1.28	8.	Tata-AIG	2.89
9.	Aviva	1.08	9.	ECGC	2.50
10.	Kotak Mahindra Old Mutual	0.71	10.	Royal Sundaram	2.17
11.	ING Vysya	0.54	11.	Cholamandalam	1.22
12.	AMP Sanmar	0.46	12.	HDFC-Chubb	0.89
13.	Met Life	0.37	13.	Reliance General	0.75
14.	Sahara Life	0.03	14.	Agriculture Insurance Co.	--
PRIVATE TOTAL		23.93	PRIVATE TOTAL		27.35
PUBLIC TOTAL		76.07	PUBLIC TOTAL		72.65
GRAND TOTAL		100.00	GRAND TOTAL		100.00
Source : www.irdaindia.org					

In August 2005, the private players in the life insurance business have increased their market share to 23.93 per cent. Among them ICICI prudential is ranked first in capturing the market followed by Bajaj Allianz and HDFC Standard. In the General Insurance sector the private players have captured 27.35 per cent. Among them ICICI-Lombard is ranked first, followed by Bajaj Allianz and IFFCO-Tokio.

The healthy competition in the sector enabled the State owned insurers of our mother country to reduce its market share to 76.07 per cent and 72.65 percent in life and non-life business respectively. Moreover, private insurers have planned to increase their market share in the next five years. The public insurers have to enrich its approach to withhold its share.

TYPES OF INSURANCE

Whole life Insurance

Whole life insurance guarantees a death benefit cover throughout the course of life, provided the required premiums are paid. The advantage of whole life insurance is that the policy, if kept current, covers you over your entire life, as opposed to term 'insurance' that covers you only for a certain term of years. Whole life insurance policies pay out on the death of the assured, whenever it occurs. Premiums may need to be paid throughout the life of the assured, or a lesser limited period.

Endowment Insurance

Pure endowment is a plan where the benefit is payable to the insured only on survival of the specified term. Combining the features of term assurance and pure endowment are endowment policies which pay out either on the death of the assured, whenever it occurs, or after a fixed number of years.

Should the insured person survive the term of the policy, the policy is said to mature. Hence, the claim, under an endowment policy, may arise either by death or by maturity.

Unit Linked Policies

A unit linked policy is a life insurance policy in which the benefits depend on the performance of a portfolio of shares.

Each premium paid by the insured person is split. A part is used to provide Life insurance cover, while the balance is used to buy units in unit of Mutual Fund after deduction of costs, expenses, etc. In this way, a small investor can benefit from investment in a managed fund without making a large financial commitment. The unit-linked policies can go up or down in value as they are linked to the value of the shares.

Term Insurance with return of Premiums

Under pure Term Assurance plans, it death of the life assured does not take place within the selected term, the policy comes to an end on completion of term and premiums collected already are not refunded. However, a variation of this plan has been devised whereby all the premiums collected are refunded, if the life assured survived the term. In effect, it means that the interest earned on the premiums is utilized to keep the policy in force as well as to grant a free term cover for a few years beyond completion of the term, even though the premiums collected are refunded.

With Profits and Without Profits

The insurance company charges premiums based on mortality rates, interest earned on investments and expenses. If these factors are favorable to the life insurance companies, then they can earn a profit or surplus. The surplus generated has to be retained. A major portion of the surplus, however, is distributed to the policyholders.

A life insurance policy, that has additional amounts added to the sum assured, or paid separately as cash bonuses, as a result of a surplus or profit made on the investment of the fund by the life insurance company, is called a with profits policy.

The surplus generated by the insurance company which is distributed to the policyholders is known as BONUS.

Policies that are not entitled to bonus are known as Without Profit Policies.

Health Insurance

Under the Insurance Act, 1938, insurance against sickness and medical treatment is not part of the life insurance business. It is covered under the miscellaneous insurance business, which is a part of the general insurance business. In many other countries, this is not the case. They consider health insurance as part of the life insurance business.

On a trial basis, LIC of India covered health related risks along with traditional life insurance policy when they floated 'Asha Deep'. This was a close-ended scheme from 7.9.93 to 30.11.93. This plan offered certain fixed payments to the life assured in case they suffered from any of the specified four major diseases, namely cancer, kidney trouble requiring transplantation, heart problems needing by-pass surgery or paralysis.

The payment to the life assured is not in the nature of reimbursement of medical expenses. The basic life cover is not affected by these payments. They are additions.

This experiment was a grand success. Encouraged by this, LIC has introduced other schemes like 'Asha Deep II' and Jeevan Asha II etc.

After deregulation of the insurance sector, new entrants have entered into the Indian market with innovative plans, to help policy-holders cover

SCOPE OF LIFE INSURANCE IN INDIA

The Indian Insurance Industry

India insurance is a flourishing industry, with several national and international players competing and growing at rapid rates. Thanks to reforms and the easing of policy regulations, the Indian insurance sector been allowed to flourish, and as Indians become more familiar with different insurance products, this growth can only increase, with the period from 2010 - 2015 projected to be the 'Golden Age' for the Indian

India Insurance Policies at a Glance

Indian insurance companies offer a comprehensive range of insurance, a range that is growing as the economy matures and the wealth of the middle classes increases. The most common types include: term life policies, endowment policies, joint life policies, whole life policies, loan cover term assurance policies, unit-linked insurance plans, group insurance policies, pension plans, and annuities. General insurance plans are also available to cover motor insurance, home insurance, travel insurance and health insurance.

Due to the growing demand for insurance, more and more insurance companies are now emerging in the Indian insurance sector. With the opening up of the economy, several international leaders in the insurance sector are trying to venture into the India insurance industry.

Assessment Between Public and Private Sector's Companies Covering Life Insurance

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 2013, 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, 2013, 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 2013 leaving behind major private sector players, most of whom have posted negative growth in the month as compared to January 2013.

Herein mentioned are some statistics given by IRDA regarding the individual single premium of several life insurers in December 2012-13:-

- Bajaj Allianz - 77.26 crore

- ING vyasa - 2.58 crore
- Reliance Life - 80.26 crore
- SBI life - 248.54 crore
- Tata AIG - 14.02 crore
- HDFC standard - 136.72 crore
- ICICI prudential - 251.97 crore
- Birla Sunlife - 9.73 crore
- Aviva - 21.57 crore
- Max New York - 25.15 crore
- Met Life - 33.86 crore
- Shriram Life - 44.90 crore
- IDBI federal - 21.11 crore
- Star Union Dai-ichi - 44.98 crore
- 15. LIC - 1774.43 crore

Talking about the number of lives covered under group single premium upto December, 2013 for some major companies are as follows according to the data released by IRDA on basis of data submitted by these insurance companies:-

- Bajaj Allianz - 105972
- Reliance life - 508352
- SBI Life - 239465
- Tata AIG - 57543
- HDFC Standard - 175291
- ICICI Prudential - 1793883
- Kotak Mahindra - 359582
- 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 2013. 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.

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 2013, 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.

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 2013, 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 2013, against US$ 5.5 billion in the corresponding period last year. The year 2013, 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 ’13, from 60.79% during end-March ’12.

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.

These numbers were divulged by TS Vijayan, chairman, LIC while announcing business results for 2012-2013. For 2011-2012, 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.

While considering the performance of Indian Life Insurance sector in 2011-12, 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, the life insurance company giants had to infuse Rs 5,956 crore. This shows that the private players have small size and weak market.

CONCLUSIONS

With largest number of life insurance policies in force in the world, Insurance happens to be a mega opportunity in India. It’s a business growing at the rate of 15-20 per cent annually and presently is of the order of Rs 450 billion. Together with banking services, it adds about 7 per cent to the country’s GDP. Gross premium collection is nearly 2 per cent of GDP and funds available with LIC for investments are 8 per cent of GDP.

Yet, nearly 80 per cent of Indian population is without life insurance cover while health insurance and non-life insurance continues to be below international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. This itself is an indicator that growth potential for the insurance sector is immense

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