

Life Insurance Industry in India: Evolution, Reforms and Present Scenario

Nisha Chaudhary*

Research Scholar, Maharshi Dayanand University, Rohtak

Abstract – Recorded history of insurance in India advent in early 19th century. Since then life insurance in India evolved as mean to safeguard the financial loss all kind of interests. Life insurance has been a priority of among all kind of insurance service available today. However, presently life insurance penetration rate in India is 2.47 % (in 2017) which is quite low in comparison of developed countries. The prospect for life insurance providers in Indian market is huge and require improved efforts. Acknowledging the facts presented paper aim to record historical development, regulations and future outlook. Introductory part is followed by history of insurance, important milestones, governing regulatory framework, Malhotra Committee recommendations and present as well as future outlook of life insurance industry.

Keywords: Insurance, Industry, Regulation and Competition

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INTRODUCTION

The scenario of today's corporate India is altogether different to what it happened to be before the era of economic reforms. Under the prevailing hyper competitive environment 'survival of the fittest' has become popular mantra for every business, be it a manufacturer or a service provider. These days, focus is on creating and sustaining loyal clientele, so that, marketer can improve profitability, market share and brand image.

The same is true about the Indian life insurance industry, since opening up the number of global players in the market has increased and hence the competition. The opening up of the insurance sector is also indicative of new products, increased product variants and improved customer service. Also the Product innovation, and channel diversification would gain momentum, in line with the global trend of the convergence of financial services. Intense competition has also forced the life insurance industry to improve its underwriting and risk management abilities that has greatly benefitted the policyholders. Moreover, customers today are more conscious of their need of risk mitigation and greater security for the future, such as retirement plans. Life insurance companies have been quick to recognize the larger need for structured retirement plans and have leveraged their abilities of long-term fund management towards building this segment.

In life insurance business, India is ranked 10 among the 88 countries, for which data is published by

Swiss Re. India's share in global life insurance market was 2.36 percent during 2016. Still 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. Along with an impressive growth rate a well-developed and evolved insurance sector is also required for economic development as it provides long term funds for infrastructure development and at the same time strengthens the risk taking ability. It is estimated that over the next ten years, India would require investments of one trillion US dollar. The Insurance sector, to some extent, can enable investments in infrastructure development to sustain economic growth of the country. On the other hand this kind of system can also play an effective role in improvement of quality of services delivered to consumers. As on day there is found huge grievances among consumer of services in India and same is true for life insurance services.

Insurance is a federal subject in India. There are two legislations that govern the sector: The Insurance Act 1938 and the IRDA Act 1999. The insurance sector in India has come a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector

reveals the 360 degree turn witnessed over a period of almost two centuries.

EVOLUTION OF INDIAN LIFE INSURANCE INDUSTRY

Historical Perspective

The history of life insurance in India dates back to 1818 when it was conceived as a means to provide financial security for English Widows. Interestingly in those days, a higher premium was charged for Indian lives than the non-Indian lives, as Indian lives were considered more risky for coverage.

The Bombay Mutual Life Insurance Society started its business in 1870. It was the first company to charge same premium for both Indian and non-Indian lives. The Oriental Assurance Company was established in 1880. The General insurance business in India, on the other hand, can trace its roots to the Triton (Tital) Insurance Company Limited, the first general insurance company established in the year 1850 in Calcutta by the British. Till the end of nineteenth century insurance business was almost entirely in the hands of overseas companies.

Insurance regulation formally began in India with the passing of the Life Insurance Companies Act of 1912 and the provident fund Act of 1912. Several frauds during 20's and 30's sullied insurance business in India. By 1938 there were 176 insurance companies. The first comprehensive legislation was introduced with the Insurance Act of 1938 that provided strict State Control over insurance business. The insurance business grew at a faster pace after independence. Indian companies strengthened their hold on this business but despite the growth that was witnessed, insurance remained an urban phenomenon.

The Government of India in 1956, brought together over 240 private life insurers and provident societies under one nationalized monopoly corporation and Life Insurance Corporation (LIC) was born. Nationalization was justified on the grounds that it would create much needed funds for rapid industrialization. This was in conformity with the Government's chosen path of state led planning and development.

Important milestones in the life insurance business in India

1912 The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

1928 The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938 Earlier legislation consolidated and amended to the Insurance Act with the objective of protecting the interests of the insuring public.

1956 245 Indian and foreign insurers and provident societies taken over by the central government and nationalized the insurance sector. LIC formed by an Act of Parliament- LIC Act 1956- with a capital contribution of Rs. 5 crore from the Government of India.

1993 Setting up of Malhotra Committee

1994 Recommendations of Malhotra Committee published

1995 Setting up of Mukherjee Committee

1996 Setting up of (interim) Insurance Regulatory Authority (IRA) and Recommendations of the IRA

1997 Mukherjee Committee Report submitted but not made public

1997 The Government gave greater autonomy to Life Insurance Corporation, General Insurance Corporation and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector

1998 The cabinet decided to allow 40% foreign equity in private insurance companies (26% to foreign companies and 14% to Non-resident Indians and Foreign Institutional Investors).

1999 The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA bill is renamed the Insurance Regulatory and Development Authority Bill

1999 Cabinet clears Insurance Regulatory and Development Authority Bill 2000 President gives Assent to the Insurance Regulatory and Development Authority Bill

2000 IRDA was incorporated as the statutory body to regulate and register private sector insurance companies.

2006 Relaxation of foreign equity norms, thus facilitating the entry of new players

Insurance Sector Reforms

In 1993, Malhotra Committee headed by former Finance Secretary and RBI Governor R.N. Malhotra was formed to evaluate the Indian insurance industry and recommend its future direction. The Malhotra committee was set up with the objective of complementing the reforms

initiated in the financial sector. The reforms were aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms. In 1994, the committee submitted the report and some of the key recommendations included:

Structure

Government's stake in the insurance companies is to be brought down to fifty percent. Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations. All the insurance companies should be given greater freedom to operate.

Competition

Private Companies with a minimum paid up capital of Rs.1bn should be allowed to enter the sector. No Company should deal in both Life and General Insurance through a single entity. Foreign companies may be allowed to enter the industry in collaboration with the domestic companies. Postal Life Insurance should be allowed to operate in the rural market. Only one State Level Life Insurance Company should be allowed to operate in each state.

Regulatory Body

The Insurance Act should be changed. An Insurance Regulatory body should be set up. Controller of Insurance (a part of the Finance Ministry) should be made independent.

Investments

Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50%. GIC and its subsidiaries are not to hold more than 5% in any company (there current holdings to be brought down to this level over a period of time)

Customer Service

LIC should pay interest on delays in payments beyond 30 days. Insurance companies must be encouraged to set up unit linked pension plans. Computerization of operations and updating of technology should be carried out in the insurance industry.

The committee emphasized that in order to improve the customer services and increase the coverage of insurance policies, industry should be opened up to competition. But at the same time, the committee felt the need to exercise caution, as any failure on the part of new players could ruin the public confidence

in the industry. Hence, it was decided to allow competition in a limited way by stipulating the minimum capital requirement of Rs.100 crore.

The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body- The Insurance Regulatory and Development Authority.

Reforms in the Insurance sector were initiated with the passage of the IRDA Bill in Parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies. Since, being set up as an independent statutory body, the IRDA has put in a framework of globally compatible regulations. The other decisions were taken simultaneously to provide the supporting systems to the insurance sector, and particularly, regarding the life insurance companies, IRDA launched online service for issue and renewal of licenses to agents. The approval of institutions for imparting training to agents has also ensured that the insurance companies would have a trained workforce of insurance agents to sell their products.

Present regulatory regime of the life insurance industry

Licensing and Capital

The Life Insurance industry, now open to private players since 2000, is required under the government mandate of maintaining a minimum capital of Rs 1 bn, of which a maximum of 26% stake can be held by a foreign partner as equity. For license renewal, each company is required to file an application to the IRDA on an annual basis accompanied with a fee of Rs 50,000 for each class of insurance business and 20% of the total gross premium written by the insurer in the previous year of operation in India or Rs 0.1 bn whichever is less.

It also seeks to give a detailed background for each of the following key personnel: chief executive officer, chief marketing officer, appointed actuary, chief investment officer, chief of internal audit and chief finance officer. Details of the sales force, activities in rural business and projected values of each line of business are also required. If an application is rejected, the applicant will have to wait for a minimum of two years to make another proposal, which will have to be with a new set of promoters and for a different class of business.

Solvency controls

Life insurers have to observe the solvency ratio, defined as the ratio of the amount of available solvency margin to the amount of required solvency margin:

- The required solvency margin is based on mathematical reserves and sum at risk, and the assets of the policyholders' funds
- The available solvency margin is the excess of the value of assets over the value of life insurance liabilities and other liabilities of policyholders' and shareholders' funds.

Business conduct

Along with licensing and solvency regulations, the IRDA Act also prescribes guidelines and regulations on business conduct. It specified the creation and functioning of an Insurance Advisory Committee that sets out relevant rules and regulation. All insurers are required to provide some coverage for the rural sector. This is known as the Obligations of Insurers to Rural Social Sectors. In respect of life insurers, the share of premiums from the rural social sectors shall be (a) 5% in the first financial year; (b) 7% in the second financial year; (c) 10% in the third financial year; (d) 12% in the fourth financial year; and (e) 15% in the fifth year. In respect of all insurers, (a) 5,000 lives in the first financial year; (b) 7,500 lives in the second financial year; (c) 10,000 lives in the third financial year; (d) 15,000 lives in the fourth financial year; and (e) 20,000 lives in the fifth financial year.

Other Norms

The insurance players today are expected to invest the funds with the combined objectives of liquidity, maximization of yield and safety by conferring to the Authority's guidelines on investments. An investment policy has to be submitted to the Authority by an insurer before the start of an accounting year for efficient resource allocation. With moderate entry barriers prevalent in the industry and minimal government interference possible, more industrialists and public sector banks are jumping into this sector. Thus the whole industry is moving towards mass customization to develop products which suit the customers' needs perfectly.

The government stipulated investment norms for insurers to facilitate efficient allocation of their resources and enhancement of insurers' efficiency ratios are provided in the table 1.

Table 1**Insurance Investment Norms**

Sr. No	Type of Investment	Percentage
1.	Government Securities	25%
2.	Government Securities or other approved securities (including 1. Above)	Not less than 50%
3.	Approved Investments specified as follows: a) Infrastructure and Social Sector b) Others to be governed by Exposure/ Prudential Norms specified in regulation 5	Not exceeding 20% Not exceeding 15%
4.	Other than in Approved Investments to be governed by Exposure/ Prudential Norms specified in Regulation 5	Not exceeding 15%

Source: Insurance Regulatory and Development Authority of India (IRDA)

Pension and General Annuity Business

Every insurer shall invest and at all times keep invested assets of Pension Business, General Annuity Business and Group Business in the following manner:

Table 2**Pension and General Annuity Business Investment Norms**

Sr. No	Type of Investment	Percentage
1.	Government Securities	Not less than 20%
2.	Government Securities or other approved securities (including 1. Above)	Not less than 40%
3.	Balance to be invested in Approved Investments as specified in schedule 1 to be governed by Exposure/ Prudential Norms specified in Regulation 5	Not exceeding 60%

Source: Insurance Regulatory and Development Authority of India (IRDA)

Another important change that the government implemented in the sector was improvement in the servicing standards prevalent within the industry. For instance the government mandated that no life insurer could operate without an Actuary appointed

after approval by the IRDA. Besides this, to protect the interests of the policy holders the authority has come out with the Insurance Advertisement and Disclosure Regulations which ensure that the insurance companies adhere to fair trade practices and transparent disclosure norms while addressing the policyholders or the prospects. Policyholder protection was enhanced through the enactment of the Protection of Policyholders' Interests Regulations, 2002. It stipulates the responsibility of insurance companies to spell out clearly the terms and conditions of insurance policies as well as other details. For example, in life insurance, details of any riders attaching to the main policy have to be given to the policyholders.

Insurance agents are governed by the Licensing of Insurance Agents Regulations 2000 and the Licensing of Insurance Regulations (amendment) 2002. Importantly, to ensure professional standards, the IRDA has mandated minimum educational qualifications for all agents, together with training and examination requirements. Through a government of India Notification dated 11 November 1998, the Insurance Ombudsman was created to address grievances of the insured customers and protect the interest of policyholders. Twelve Ombudsmen have been appointed across the country to expedite disposal of complaints. They have jurisdiction in respect of personal lines of insurance where the contract value does not exceed Rs 20 lakhs. The Ombudsman is bound to pass a judgment within three months from the receipt of the complaint. It should be noted that the system is monitored and operated through a governing body of Insurance Council comprising of representatives of insurance companies. The IRDA deals with other disputes that fall outside the Ombudsman's jurisdiction.

Present Scenario of Indian Life Insurance Industry

Since opening up the sector, the life insurance market in India witnessed dynamic changes including the entry of a number of global life insurers that led to increased competition in the Indian Life insurance market. Intense competition has also forced the life insurance industry to improve its underwriting and risk management abilities that has greatly benefitted the policyholders. Moreover, customers today are more conscious of their need of risk mitigation and greater security for the future, such as retirement plans. Life insurance companies have been quick to recognize the larger need for structured retirement plans and have leveraged their abilities of long-term fund management towards building this segment.

As of March 31, 2017, there were 23 players in the sector (1 public and 22 private). The Life Insurance Corporation of India (LIC) is the only public sector player, and held almost 71% of the market share in FY 2016-17 (based on first-year premiums). ICICI

Prudential, Bajaj Allianz and SBI Life collectively account for approximately 50% of the market share in the private life insurance segment. To tap this opportunity, banks have also started entering alliances with insurance companies to develop/underwrite insurance products rather than merely distribute them.

Life insurance industry recorded a premium income of Rs 418476.62 crore during 2016-17 as against Rs 366943.23 crore in the previous financial year, registering a growth of 14.04 percent (11.84 percent growth in previous year). While private sector insurers posted 17.40 percent growth (13.64 percent growth in previous year) in their premium income, LIC recorded 12.78 percent growth (11.17 percent growth in previous year)

The new liberal policies permitting the entry of private players and the reform initiatives undertaken by the Insurance Regulatory and Development Authority (IRDA) have helped the industry evolve at a fast pace and emerge as one of the fastest growing industries in the country. People's perceptions of insurance has also changed from an instrument of saving to a risk-hedging tool. This change has been facilitated by the emergence of a range of new insurance products suiting diverse needs of consumers. The initial years of liberalization continued to see the Life Insurance Corporation of India (LIC) retaining a dominant position in the market. However, as time went by, private companies like ICICI Prudential Life and Birla Sun Life, which were among the first batch of entrants, witnessed great success in securing new business.

Competition between the Life Insurance Corporation of India (LIC) and the private sector insurers continues to intensify. On the basis of total premium income, the market share of LIC decreased from 72.61 percent in 2015-16 to 71.81 percent in 2016-17. The market share of private insurers has increased from 27.39 percent in 2015-16 to 28.19 percent in 2016-17. The market share of private insurers in first year premium was 28.89 percent in 2016-17 (29.46 percent in 2015-16). The same for LIC was 71.11 percent (70.54 percent in 2015-16). Similarly, in renewal premium, LIC continued to have a higher share at 72.31 percent (73.87 percent in 2015-16) when compared to 27.69 percent (26.13 percent in 2015-16) share of private insurers. During 2016-17, life insurers issued 264.56 lakh new policies, out of which LIC issued 201.32 lakh policies (76.1 percent of total new policies issued) and the private life insurers issued 63.24 lakh policies (23.9 percent of total new policies issued).

While innovative products have been underpinning private insurers premium growth, the threat of losing market share has also led to more

aggressive pushes by LIC to stay competitive such as to develop new distribution channels like bancassurance. As a result, though LIC lost significant market share to private companies in the post-liberalization period, but still retains a commanding position in the life insurance segment. While, most of the product innovations came from the private players initially, LIC joined the race soon in order to protect its turf. While LIC still dominates in segments like endowments and moneyback policies, private insurers have already wrested a significant share of the annuity and pension products market. Such intense competition has resulted in faster premium growth as well as deeper penetration for the entire market.

CONCLUSION

The overall outlook remains positive for life insurance in the medium term. As economic environment and capital markets are expected to stabilize in medium term, life insurance is projected to resume its strong performance. In India, the potential for significant market expansion in tandem with higher disposable income and a relatively young population will drive sales for both savings and protection products in the years to come. Besides, the life insurance sector needs to continue on the path of innovation by designing new products suitable for the market and make use of innovative distribution channels to reach a broader range of the population. The demand for Life insurance will be fueled by the simultaneous growth in the per capita income of the population. As long as India continues to improve its economic fundamentals, the per capita income will increase which in turn will create demand for Life insurance products.

Given India's strong economic fundamentals, there is good reason to expect that the growth momentum in the life insurance sector can be sustained. In fact, there is huge untapped potential in various segments of the market. Also Insurance to mitigate the negative financial consequences of adverse events (such as natural disasters) is still underdeveloped. Major changes in both national economic policies and insurance regulations will reveal the prospects for the life insurance segment going forward.

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Corresponding Author

Nisha Chaudhary*

Research Scholar, Maharshi Dayanand University, Rohtak

E-Mail – nishachaudharyimsar@gmail.com