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Indian Life Insurance – An overview

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Abstract

Life insurance is a big savings vehicle along with banking in such uncertain economic environment. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will also support the growth of Indian life insurance. A major role played by the insurance sector is to mobilize national savings and channelize them into investments in different sectors of the economy. The insurance sector has also been fast developing with substantial revenue growth in the non-life insurance market. Over the years, the wave of liberalisation and globalization sweeping across the world has opened many national markets for international business. Insurance Regulatory & Development Authority (IRDA) is in favour of an increase in foreign equity capital in the insurance joint ventures. The public sector Insurance companies have continued to dominate the insurance market. India is among the most promising emerging insurance markets in the world. This paper enlightens the overview of Indian life insurance and growth and developments with new policies with new schemes.

Key words: *Life insurance, IRDA, FDI, developments*

1.Introduction

Insurance has a long history in India. The business of life insurance started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. (a) Pre Nationalisation (b) Nationalisation and (c) Post Nationalisation. Life Insurance was the first to be nationalized in 1956. General Insurance followed suit and was nationalized in 1973. After the report submitted by Malhotra Committee in 1994, Insurance Regulatory Development Act was passed in 1999 which gave an entry to private insurance companies. The goals of the IRDA are to safeguard the interests of insurance policyholders, as well as to initiate different policy measures to help sustain growth in the Indian insurance sector. The life insurance sector transformed since it was thrown open to private sector participation in 2000. Life Insurance Corporation of India (LIC) was formed in September, 1956 by an Act of Parliament, with capital contribution from the Government of India. Even today, Life Insurance Corporation of India dominates Indian insurance sector. The introduction of private players in the industry has added value to the insurance industry. The initiatives taken by the private players were very competitive and have given immense competition to the on time monopoly of the market LIC. Since the advent of the private players in the insurance market it has seen new and innovative steps by the players in this sector. The new players have improved the service quality of the insurance.

In life insurance business, India is ranked 11th among the 88 countries, for which data is published by Swiss Re. India's share in global life insurance market was 2.00 per cent during 2013. However, during 2013, the life insurance premium in India declined by 0.5 per cent . when global life insurance premium increased by 0.7 per cent.

The Indian non-life insurance sector witnessed a growth of 4.1 per cent during 2013. During the same period, the growth in global non-life premium was 2.3 per cent. However, the share of Indian non-life insurance premium in global non-life insurance premium was small at 0.66 per cent and India ranks 21st in global non-life insurance markets.

2. Objectives of Study

- To understand the Indian Life insurance density
- To study of correlation between life insurance and non life insurance in India

3. Overview of life insurance in India: Life insurance industry recorded a premium income of `3,14,283 crore during 2013-14 as against `2,87,202 crore in the previous financial year, registering a growth of 9.43 per cent (0.05 per cent growth in previous year). While private sector insurers posted 1.35 per cent decline (6.87 per cent decline in previous year) in their premium income, LIC recorded 13.48 per cent growth (2.92 per cent growth in previous year) . Table 1 shows life and non-life insurance premium in India.

Table-1: Life and Non-Life Insurance Premium (Crores)

Total Insurance Premium				
Sl.no	Year	Life insurance	Non-life insurance	Total
1	2003	55747.55	14870.25	70617.8
2	2004	66653.75	16542.49	83196.24
3	2005	82854.8	18456.45	101311.25
4	2006	105875.76	21339.1	127214.86
5	2007	166075.84	25930.02	192005.86
6	2008	201351.41	28805.6	230157.01
7	2009	221785.47	31428.4	253213.87
8	2010	265447.25	35815.85	301263.1
9	2011	291638.64	43841.84	335480.48
10	2012	287072.11	54578.49	341650.6
12	2013	287202.00	62973.0	350175.00
13	2014	314283.00	70610.0	384893.00

Source: IRDA Annual Report 2013-14.

1Registered insurers in India

At the end of March 2014, there are 53 insurance companies operating in India; of which 24 are in the life insurance business and 28 are in non-life insurance business. In addition, GIC is the sole national reinsurer. Of the 53 companies presently in operation, eight are in the public sector - two are specialized insurers, namely ECGC and AIC, one in life insurance namely LIC, four in non-life insurance and one in reinsurance. The remaining forty five companies are in the private sector.

Insurance Penetration and Density in India

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). During the first decade of insurance sector liberalization, the sector has reported consistent increase in insurance penetration from 2.71 per cent in 2001 to 5.20 per cent in 2009. However, since then, the level of penetration has been declining reaching 3.9 per cent in 2013. A similar trend was observed in the level of insurance density which reached the maximum of USD 64.4 in the year 2010 from the level of USD 11.5 in 2001. During the year under review 2013, the insurance density was USD 52.0.

Table-2: Insurance Penetration and Density in India

Year	Life		Non-Life		Industry	
	Density (USD)	Penetration (%)	Density (USD)	Penetration (%)	Density (USD)	Penetration (%)
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3.0	0.67	14.7	3.26
2003	12.9	2.26	3.5	0.62	16.4	2.88
2004	15.7	2.53	4.0	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.10	5.2	0.60	38.4	4.80
2007	40.4	4.00	6.2	0.60	46.6	4.70
2008	41.2	4.00	6.2	0.60	47.4	4.60
2009	47.7	4.60	6.7	0.60	54.3	5.20
2010	55.7	4.40	8.7	0.71	64.4	5.10
2011	49.0	3.40	10.0	0.70	59.0	4.10
2012	42.7	3.17	10.5	0.78	53.2	3.96
2013	41.0	3.10	11.0	0.80	52.0	3.90

Source: IRDA Annual Report -2013-14

Table 2 shows insurance penetration and density in India. The insurance density of life insurance business had gone up from USD 9.1 in 2001 to reach the peak at USD 55.7 in 2010. During 2013, the level of life insurance density was only USD

41. Similarly, the life insurance penetration surged from 2.15 per cent in 2001 to 4.60 per cent in 2009. Since then, it has exhibited a declining trend reaching 3.1 per cent in 2013. Over the last 10 years, the penetration of non-life insurance sector in the country remained steady in the range of 0.5-0.8 per cent. However, its density has gone up from USD 2.4 in 2001 to USD 11.0 in 2013.

Market Share

On the basis of total premium income, the market share of LIC increased from 72.70 per cent in 2012-13 to 75.39 per cent in 2013-14. Accordingly, the market share of private insurers has declined from 27.30 per cent in 2012-13 to 24.61 per cent in 2013-14. The market share of private insurers in first year premium was 24.53 per cent in 2013-14 (28.64 per cent in 2012-13). The same for LIC was 75.47 per cent (71.36 per cent in 2012-13). Similarly, in renewal premium, LIC continued to have a higher share at 75.34 per cent (73.50 per cent in 2012-13) when compared to 24.66 per cent (26.50 per cent in 2012-13) share of private insurers.

New Policies

During 2013-14, life insurers issued 408.72 lakh new policies, out of which LIC issued 345.12 lakh policies (84.44 per cent of total policies issued) and the private life insurers issued 63.60 lakh policies (15.56 per cent). While LIC registered a decline of 6.17 per cent (2.88 per cent growth in 2012-13) in the number of new policies issued against the previous year, the private sector insurers continued the previous year's experience of significant decline and reported a dip of 14.11 per cent (12.88 per cent decline in 2012-13) in the number of new policies issued. Overall, the industry witnessed a 7.50 per cent decline (0.01 per cent decline in 2012-13) in the number of new policies issued.

Benefits Paid

The life industry paid higher gross benefits of `2,17,075 crore in 2013-14 (`1,91,845 crore in 2012-13) constituting 69.07 per cent of the gross premium underwritten (66.80 per cent in 2012-13). The benefits paid by the private insurers stood at `58,994 crore (`56,923 crore in 2012-13) constituting 76.28 per cent of the premium underwritten (72.61 per cent in 2012-13). LIC paid benefits of `1,58,081 crore in 2013- 14, constituting 66.72 per cent of the premium underwritten (`1,34,922 crore in 2012-13, 64.62 per cent of the total premium underwritten). The benefits paid by the life insurers net of reinsurance were `2,16,329crore (`1,91,220 crore in 2012-13). The benefits paid on account of surrenders / withdrawals stood at `1,06,982 crore, of which LIC accounted for `59,627 crore and private sector `47,356 crore. The comparative previous year statistics were `1,05,151 crore, of which LIC accounted for `56,012 crore and private sector `49,139 crore. In case of LIC, out of the `59,627 crore surrenders, ULIP policies accounted for `38,968 crore (65.35 per cent) as against `41,042 crore, (73.27 per cent) in 2012-13. In the case of the private insurance industry, the ULIP surrenders accounted for `44,752 crore (94.50 per cent) in 2013-14 as against `47,178 crore (96.01 per cent) in 2012-13.

Death claims

In the year 2013-14, the life insurance companies had settled 8.57 lakh claims on individual policies, with a total payout of `10,860.59 Cr. The number of claims repudiated was 18,423 for an amount of `624.43 Cr. The number of claims pending at the year-end was

8,497 and the amount involved was `450.41 Cr. Of these, 1861 claims were pending for more than one year and 6,636 claims were pending for less than and up to one year. The claim settlement ratio of LIC was better than that of the private life insurers. Settlement ratio of LIC had increased to 98.14 per cent during the year 2013-14 when compared to 97.73 per cent during the previous year. The percentage of repudiations was 1.10 per cent in 2013-14 remaining almost at the same level (1.12 per cent) as of the previous year.

For private insurers, settlement ratio had gone down slightly to 88.31 per cent during the financial year 2013-14 when compared to 88.65 per cent during the previous year. Private insurers had repudiated more (10,036) number of claims when compared to (8,387) of LIC. The percentage of repudiations for private insurers was 8.03 per cent in 2013-14 which was 7.85 per cent for 2012-13. The industry's settlement ratio had slightly increased to 96.75 per cent in 2013-14 from 96.41 per cent in 2012-13 and the repudiation ratio had remained almost at the same level of 2.08 per cent in 2013-14 as in 2012-13 (2.10 per cent).

Group Life Insurance:

During 2013-14, the total intimated claims were 4,11,647 while 14,331 claims were pending at the beginning of the year. Out of these, life insurance industry had settled a total of 4,09,897 (96.22 per cent of the total claims) claims. 96.57 per cent of these were settled within 30 days of intimation. 0.01 per cent of the claims took more than a year to get settled. I.3.24 While LIC settled 99.65 per cent of the claims, the private life insurers paid 90.45 per cent of all claims. The industry repudiated 0.45 per cent of the claims, written back 0.0002 per cent of the claims and the remaining 3.32 per cent of the claims submitted were pending as at 31st March, 2014.

4. Role of FDI in the Growth of the Insurance Sector

The rising importance of insurance in the globalised world is evident from the increased number of players in both the domestic and international markets (IRDA). India, being one of the fastest-growing economies in the world after China and an attractive foreign direct investment (FDI) destination, has the potential to significantly increase the market of its insurance inustry. In 2006-07, the services sector (financial and non-financial) constituted around 30 per cent of FDI equity inflows compared to 12.5 per cent in 2004-05 (according to the Department of Industrial Policy and Promotion). Constantly rising disposable incomes, coupled with the high potential demand for insurance offerings, has opened many doors for both domestic and foreign insurers. FDI can help to increase insurance penetration in the economy, in both rural and urban India, helping in inclusive growth. Further, FDI in the insurance sector will help to develop the life and non-life insurance markets in India, as foreign players have a high level of expertise and technical knowhow in the insurance and reinsurance business. In India, General Insurance Corporation (GIC) is the sole reinsurer, which provides immense opportunity for other private and foreign players to tap the reinsurance market.

5. Profits of Life Insurers:

Life insurance industry is capital intensive, and insurers are required to infuse capital at regular intervals to fund both the new business strain and to expand their infrastructure base including expenses on initial operations, training costs for development of the distribution channels, creating niche markets and achieving reasonable levels of persistency. The experience of the insurance markets globally indicates that companies in the life sector take seven to ten years to break-even. During the financial year 2013-14, the life insurance industry reported net profit of `7,588 crore as against `6,948 crore in 2012-13. Out of the twenty four life insurers in operations during 2013-14, eighteen companies reported profits. They are Aviva Life, Bajaj Allianz, Birla SunLife, Canara HSBC, DHFL Pramerica, EXIDE Life, HDFC Standard, ICICI Prudential, IDBI Federal, Kotak Mahindra, Max Life, PNB MetLife, Reliance Life, Sahara India, SBI Life, Shriram Life, Tata AIA and LIC of India. LIC of India reported net profit of `1,656.68 crore i.e. an increase of 15.24 per cent over `1,437.59 crore in 2012-13

The Indian insurance industry has undergone transformational changes since 2000 when the industry was liberalised. With a one-player market to 24 in 13 years, the industry has witnessed phases of rapid growth along with extent of growth moderation and intensifying competition. There have also been a number of product and operational innovations necessitated by consumer need and increased competition among the players. Changes in the regulatory environment also had a path-breaking impact on the development of the industry. While the insurance industry still struggles to move out of the shadows cast by the challenges posed by economic uncertainties of the last few years, the strong fundamentals of the industry augur well for a roadmap to be drawn for sustainable long-term growth. The decade 2001-10 was characterised by a period of high growth (compound annual growth rate of 31 percent in new business premium) and a flat growth (CAGR of around two percent in new business premium between 2010-12), according to KPMG.

There was exponential growth in the first decade of insurance industry liberalization. Backed by innovative products and aggressive expansion of distribution, the life insurance industry grew at jet speed. However, this frenzied growth also brought in its wake issues related to product design, market conduct, complaints of management and the necessity to make course correction for the long term health of the industry. Regulatory changes were introduced during the past two years and life insurance companies adopted many new customer-centric practices in this period. Product-related changes, first in ULIPs (Unit Linked Insurance Plans) in September 2011 and now in traditional products, will have the biggest impact on the industry.

6. New Product Guidelines

The new guidelines for both linked and non-linked products will now come into force from the beginning of year 2014, an extension of three months from earlier specified date. This additional period will ensure that life insurers enter the crucial quarter of Jan-March with a full bouquet of products and the sellers are well trained in the nuances of all these new products. These product guidelines are in line with the IRDA's regulatory theme of customer orientation and long-term nature of the life insurance business. The guidelines follow two overarching themes of providing Guarantee and enhancing Transparency. The major changes introduced include - Higher Death Benefit, Guaranteed Surrender Value and mandatory Benefit Illustration for all life insurance products.

The changes related to death benefit and surrender value may marginally reduce the customers' overall maturity benefit, i.e., policy IRR, especially at higher ages but will ensure that life insurance serves the purpose of providing life cover which no other financial instrument offers. All ULIPs are currently sold mandatorily with a personalised Benefit Illustration. This requirement is now being extended to other product forms. The new guidelines have also provided for setting up a "With Profit Committee" at the board level. While personalized benefit illustration will provide for greater transparency in the pre-sales discussion, the With Profit Committee is likely to lead to greater governance in the administration of Participating policies. Premium paying term linked distributors' commission will promote the long-term nature of insurance products.

7. Conclusion:

India continues to be a country of savers though we have witnessed a decline in the household savings rate in the past couple of years. In India, the problem lies in household savings lying idle or getting invested in saving instruments that do not help them achieve their life stage goals. There is a worrying trend of larger portion of household savings getting into non-productive physical assets such as real estate and gold. But even then, the future looks interesting for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. World over it has been observed that the life insurance industry does behave in a counter cyclical manner in many cases, e.g., in a situation where the economic growth is slowing down, due to other factors such as high current account and fiscal deficits, currency depreciation, high interest rates, savings rate will continue to be high, leading to higher demand for life insurance.

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