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Role of Private Players in Life Insurance Sector

[1]Mohammed Abdul Mateen, [2]P.Kranthi
(Dept of Management St.Mary's Centenary Degree College, Affliated to Osmania University, India)
(Dept of Management St.Mary's Centenary Degree College, Affliated to Osmania University, India)

Abstract: *The growth of insurance sector can be seen from 1940 and 1950's, Life insurance business was nationalized in 1956 and near about 250 companies merged and formed a private life insurance businesses . Liberalization (LPG's) measures in insurance sector have changed the face of insurance. Government of Indian appointed a committee headed by Ex-Governor of RBI R.N.Malhotra, who recommended to privatization of insurance sector, which would increase competition and efficiency in insurance market this committee has submitted a report on the insurance reforms in creation of global market it also recommended amendments to regulate the insurance sector to adjust with economic policies of privatization. Insurance being the backbone of country's risk management system, to overcome negative element of insurance (controller of insurance) the new body IRDA emerged (IRDA Act1999).*

Generally privatization means transferring of ownership from public to private sector. Insurance sector does not come under this type of privatization. Indian Government allowed foreign private investors in market as they can create an employment for skilled labours and also contribute to economic growth. As per 2016 census PSE's (LIC) captured 72.61%, private insurers has penetrated market share of 29.50% in 2015-2016 but still LIC is dominant.

The reason behind privatizing the insurance sector is to introduce the technology, increase in competitiveness among insurance companies. The needs for privatization: Making aware of insurance products among Indian customers, improper premium rates (high) and network for claims finally private insurance companies started their operation from August 2000.

"Despite 16 years of privatization LIC has not lost its position and private sector is free from bureaucratic controls" said Shree Arun Jaitley Ministry of Finance.

Keywords: *Origin of Insurance, Privatization in Insurance Sector, IRDA – Insurance Revolution,Private Insurers USP,LIC Penetration and Density in India,*

Objectives

This article is about concise privatization of Insurance in comparison with LIC and the captivity of privatization in capturing Insurance market and there contribution towards economic growth, parallel y how Government of India (LIC) made private insurers an equivalent competitors.

I. Introduction

Life insurance sector in India contributes more promising revenue in the Indian economy. Insurance providesfinancial support to the under privilegedfamilies. Amidst the private organizations competitors, LIC is undoubtedly a market lead. From April 2015 to March 2016, during this period life insurance industry recorded a new premium income of Rs 1.38 trillion (US$ 20.54 billion), indicating a growth rate of 22.5 per cent. The life insurance industry reported 9 per cent increase in overall annual premium equivalent in April-November 2016. In this period, overall annual premium equivalent (APE)- a measure to normalize policy premium into the equivalent of regular annual premium- including individual and group business for private players was up to 16 per cent to Rs 1,25,563 crore (US$ 18.76 billion) and Life Insurance Corporation up to 4 per cent to Rs 1,50,456 crore (US$ 22.48).

India's life insurance being the biggest sector in the world with about 360 million policies is expected to increase at a Compound Annual Growth Rate (CAGR) of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to five per cent by 2020.

The country's insurance market is expected to quadruple in size over the next 10 years from its current size of US$ 60 billion. During this period, the life insurance market is slated to cross US$ 160 billion.

Unit Linked Insurance Plan (ULIP) is an innovative product which encompasses both Insurance and Investment options where it promotes an individual to enhance his/her savings. This was first initiated by UTI, Government of India in the year 2001.A portion of premium (amount) is an insurance coverage and the other part is invested in equities and Financial Debt Instruments which carries the concept of Mutual Funds.

II. Review of Literature

The existing literature on Role of Private Insurance player has been studied few of the relevant works are summarized below.

Emmett Vaughan, Therese Vaughan (2012) mentioned the changes in the history of insurance as a field of business helps to explain the segmentation among the various products of insurance. It may be helpful to take a very brief look at the historical development of insurance bodies. The first modern life insurance company, the society for the Assurance of Widows and Orphans, a London company founded in 1699, charged all insureds charged the same premium.G. Krishnaswamy (2009) In Bancassurance, the extensive network of the branches of the banks is made use of to increase the insurance business – there are about 66,000 bank branches in India and the number of accounts held in these branches is about 20 Crores. If the banks canvass insurance to these customers, they can increase their capacity to earn more diversified selling. PGRRCDE (2014) Introduction of privatization is more difficult process in India in Soviet Union and East European countries there was a total absence of market mechanism and the entire pricing system was based on cost plus pricing. There was no private sector existing in the economy but in India we had Co-Existence of Public and private sectors.1991 Industrial Resolution Policy abolished the Public sector monopoly in many industries. Privatization program lifted the general sentiment giving boost to the capital market.

Mark S. Dorfman (2005) briefed about credit life insurance is a special type of group life insurance purchased by a lender for its group of debtors. Group life insurance is provided to a well-defined group of people who are associated for some purpose other than purchasing life insurance. People purchase Industrial life insurance in small amounts usually $2000 or less. It is also called as debit life insurance or burial insurance. Beginning in the late 1970s universal life insurance allows the insure to buy term insurance and invest an additional amount with the insurance company the insurer's investments supporting universal life insurance are typically in short term (six months or less) federal government debt issues.

Origin of Insurance

Though the origin of Insurance remains obscure, yet its traces of evidence states that the concept of insurance has been existing for more than 1000 years ago.

The "Rig Veda" refers to "Yogakshema": which means Insurance and great Britain enlightened its base since the early decades of 17^{th} century, which paved way to sophisticated diverse life insurance products in India. However, the evidence suggests the insurance is recognized as affirm sector since 12^{th} Century.

In India, the first life Insurance Company under the name of Orient Life Insurance company was established in 1818; Bombay Mutual Life Assurance became the first Indian Insurer in 1870's; National Insurance Corporation (NIC) which was formed in 1906 and was active providing its services.

A Resolution was passed in the *Indian parliament* for nationalizing life insurance business in 1956 and LIC originated in the same year merging with every other company of the same stream security.

Table 1.1: History of the Life Insurance Business in Indian Economy

Year	History of the Life Insurance Business in Indian Economy
1912	The Indian Life Assurance company's Act established the first statute to supervise the Life Insurance Business operating.
1928	The Indian Life Assurance Company's Act architecture to collect statistical information about LIC and GIC.
1956	More than 250 plus Indian and Foreign Insurance and few provident societies were taken over by Government of India and LIC been nationalized and Act came in to existence.

Source: Secondary Data

Table 1.2: Corporate Profile LIC of India 2017

Total Income	Rs 4,92,626.60 Crore
Total Premium Income	Rs 3,00,196.68 Crore
Payment to Policy Holders	Rs 1,67,624.27 Crore
Total Life Fund	Rs 23,23,802.59 Crore
Total Amount of Claims Paid	Rs 1,12,700.41 Crore
Investment in Govt and Social Sector	Rs 17,32,579 Crore
LIC's Investments during five year plan period 2012-17	Rs 14,23,055 Crore

Source: licindia.in

Table 1.3: Market share of LIC – 2017

Market share Policies	76.09 %
Market share Premium	71.07 %
Individual Policies	29.04
Group Policies (Lives)	11.46
Total Number of awards	33

Source: LIC India annual report

Above numerical data states that how LIC stands as a monopoly insurance market with penetration of 76.09% of market share policies and simultaneously LIC generates the income of RS 492626.60 Crore. (7627.631 USD).

Table 1.4: Claims Settlement of LIC – 2017

Percentage of maturity claims settled	98.34 %
Percentage of death claims settled	99.63 %

Source: LIC India annual report

Privatization

Privatization refers to transformation of government owned and operated enterprise activities to self-financing sectors viz. sale to public, Management-employee buyout.

Beginning with 1991 the government has madesome radical changes in its policies bearing trade, foreign investments, FEMA and industries. A major implication of new economic policy is the privatization of public sector. There was a new wave of economic reforms sweeping across the world which has its impact also on India. The performance of state owned enterprises in many countries has been far from satisfactory due to lack of responsibility, ignorance of customer needs, discontent of people with their poor performance, absence of quality improvement along with Nepotism and corruption led private sectors to lead the market.

The new Industrial Policy 1991 has changed the isolated phase of privatization and Finance Minister Shri. Man Mohan Singh in his 1995-96 budget announced that government proposed to raise Rs 7000 Crores in PSU's Dis-investment.

Insurance and Regulatory Development Authority of India (IRDA - Insurance revolution)

In 1993, the R. N Malhotra Committee was setup to explore and recommend changes for development of the industry including the reforms of an element of competition. The Committee submitted its report in 1994.

1993-97: The committee submitted a final report on replacement of insurance traditional techniques approaches and an act was formed. In 1997 the Insurance Regulatory Authority (IRA) was established which is a pilot for both LIC and GIC which are operating in India.

2000: InsuranceRegulatory and Development Authority of India (IRDAI) came into existence in April 2000 as a statutory regulatory body both for Life, Non-life and health insurance industry. IRDA has been subsequently renamed as IRDAI in 2014. Amending the Insurance Act in 2015, certain stipulations have been added governing the definition and formation of insurance companies in India. An Indian Insurance company includes a company, in which the aggregate holdings of equity shares by foreign investors and including portfolio investors, do not exceed forty-nine percent of the paid up equity capital of such Indian insurance company, which is Indian owned and controlled, in such manner as may be prescribed‟. Amendment to the Insurance Act also stipulates about foreign companies in India, A foreign insurance company can engage in reinsurance through a branch established in India. The term "reinsurance" means theinsurance of part of one insurer's risk by another insurer who accepts the risk for a mutual acceptance.

Privatization in Insurance Sector

To develop the competition between public and private insurance market by which insurance sector will have new technology, innovated polices and to make efficient use of insurance among general public and to create employment opportunities for skilled and semi-skilled labour. To promote the savings of individuals which in turn ladders to economic development of the nation?

The Narasimha Rao Government and former Finance minister Dr.ManMohan Singh choose the path of liberalization it also caters unilateral trade and business relationships among different nations, 1991-96 regime which unite the liberal changes in India's economic structure. Ironically it is parliament's decision which has declared its intention of freezing down the 1956 policies and to open up insurance to the private sector.

It is believed that private people are more efficient in their productivity and outcome than public sector; this was one of the prime reasons to open up private sector. Government encouraged privatization so that foreign exchange can be increased.

There is a huge demand from urban areas due to the lack of public sector intervention, special incentives and assistance for small scale units, tax benefits and in the overall development of the rural markets. There is also tremendous growth in compensation systems due to increase of scope in insurance sector.

Policies offered by public insurer are confined where as private insurer companies have ample options such asless premium, diversified policies, and maturity plans.

The private insurer instills the confidence in the minds of rural customers by educating them about insurance and its importance. This can be observed in developed and developing economies to cut cross socio-cultural systems.

Private Insurers USP

Stage 1 Initially Insuree use to claim by means of *making payment first* on latter date the company use to reimburse the claims.

Stage 2 Introduction of *Cashless payments*, where by a patient need not make payments before.

Stage 3 Introduction of health cards with unique *numeric* numbers, Patient need to get admitted for 24 hrs. and Insuree will get Claim.

Stage 4It has moved from *hospitalization to Day care*, insurer use to pay for In-patient now they are also paying for Out-patient (which was adopted by Star Health Insurance)

Table 1.5: Growth Rates Of New Business-Regular Premiums 2010 - 2016

Insurer	2010 – 11	2011 – 12	2012 – 13	2013 – 14	2014 – 15	2015 – 16
LIC	36265.36	40194.54	30313.52	31904.49	23112.20	23829.38
Private Firms	27664.19	22040.78	21877.15	20497.51	23901.76	27149.32
TOTAL	63929.55	62235.32	52190.67	52402	47013.96	50978.7

Source: IRDA Annual Reports

Table 1.6: New Business – Single Premiums

LIC	50746.99	41667.71	46297.98	58904.30	55395.51	74062.13
Private Firms	11704.46	10039.14	8872.43	9018.92	10920.05	13821.47
TOTAL	62451.45	51706.85	55170.41	67923.22	66315.56	87883.6

Source: IRDA Annual Reports

There is no static growth rate in regular premiums and in comparison with private insurer LIC has less growth in 2015-16. When it comes to single premium LIC has dominated private insurer which symbolizes that LIC has not lost its mark.

Table 1.7: Licpenetration And Density In India 2008 - 15

YEAR	LIFE DENSITY (USD)	PENETRATION (PERCENTAGE)
2008	41.2	4
2009	47.7	4.6
2010	55.7	4.4
2011	49	3.4
2012	42.7	3.17
2013	41	3.1
2014	44	2.6
2015	43.2	2.72

Source: IRDA Annual report

The density in the year 2010 was amounted to 55.7 USD and in 2015 it was 43.2 USD this sense the density is getting decreased due to lack of awareness among individual about insurance products.

Table 1.8: Foremost Top Private Life Insurer players in the market

Company name	Foreign (Minor)Stakeholder	Domestic (Major) Stakeholder
Allianz Bajaj Life Insurance Company	Allianz	Bajaj Auto
Aviva Life Insurance	AVIVA	AVIVA INDIA
Birla Sun Life Insurance Co	Sun life of Canada	Birla Global Finance
HDFC Standard Life Insurance	Standard life	HDFC
ICICI Prudential Life Insurance	Prudential (UK)	ICICI
Max New York Life Insurance Co	New York Life	Max India
Om Kotak Mahindra Life Insurance	Old Mutual	Kotak Mahindra
SBI Life	Cardiff	SBI
Reliance Insurance	--	Reliance Nippon
TATA AIG Life	AIG	TATA

Source: Secondary Data

The overall development of insurance sector in India has been run by the private insurers which have made substantially high percentage. The private insurers gave new insights for technology, international exposure. The indication is that LIC, the monopoly life insurer and one of the most contributor financial institutions in the country.

III. Findings

In middle class it is estimated that from 30 million to on an average 300 million plus. The McKenzie global institute using Statistical data estimated that by 2025 the house hold income is going to increase by 10 times assuming a growth rate of Y.o.Y 8% per anum.

- Delay in settlements of claims
- Returns (ROI) from insurance products are too low.
- Lack of awareness and responsibility
- High premium rates in effective distribution channels.

IV. Limitations of Life Insurance

- Due to lack of awareness among individuals, they tend to withdraw their savings in between for instance- the fact that one out of every 5 life insurance policies purchased today is dropped within first 2 years of its purchase.
- People buy insurance product without knowledge it, most of complex products give suboptimal returns and have no suitability for buyers.
- To achieve the targets and to get more commissions most of the agents gives improper advice to customers.
- Companies provide more complex policies where by people do not understand “what to opt and what not to”.
- Insurance will not help you to provide income or capital needs until event of death/ disability or maturity.

V. Conclusion

Insurance refers to secure ones family in case of any unfortunate incident. Individual fails to understand the essence of Life Insurance.“It is rightly said that if every man knew that a widow knows, then no man would be without adequate life insurance”. It means only widow could actually realize the importance of life insurance. Even though there is a stiff competition from private insurers LIC dominates the insurance market by providing good settlement claims and security to the consumers.

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