CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

The Life Insurance Industry in India is one of the hard-core parts of the service sector. It plays a vital role in the economic development of our nation. It not only provides safety against life risk for individuals but also acts as a collection of savings, financial intermediary, and promoter of investment activities and stabilizer of financial markets. This in turn generates long-term invertible funds for nation building and enhances standard of living of the people.

Financial systems are an important element for the economic growth process, because they have a function which provides funds for wide spreading of new technologies and accumulation of capital funds. Developed financial systems which are effectively fulfilling the functions can increase efficiency in addition to economic growth. These functions are such as orientation of small deposits owned by individuals to large investments, the possibility of diversification of investments, reducing the risk of depositors, reducing collecting and evaluating information costs about the projects which is applied by the specialized agencies.

Today India is one of the fastest growing economies of the world. It is now Asia's third largest economy and has made inroads into the global top 10 in terms of Gross Domestic Product (GDP). The service sector has contributed significantly in India's growth story in the recent years. GDP originating from the service sector recorded a growth rate of 9.30 per cent in 2010-2011\(^1\). The contours of insurance business have been changing across the globe and the rippling effect of the same can be observed in the Indian market as well. Insurance Industry is a growth-oriented industry. In India too, the industry has started to reveal the potential after liberalization and privatization of the sector. Even though India is geographically large and world’s second largest populated country the life Insurance penetration is low. This situation reflects the fact that India's life insurance market is still in its infancy Good Growth Potential.
The life insurance sector in India has seen an array of changes in the past decade. The economic scenario which emerged after globalization, privatization and liberalization has thrown a new challenge before the insurers. Now it has to be more competitive in order to meet the needs and demands of its customers. The reforms contributed to increase the awareness of the insuring public about the wider range of choice of insurance products and the price offered by the competing insurers in the market. The customers know well about their rights and remedies, availability of various grievance redress mechanisms, progressive decontrol and detoxification of pricing of insurance products. The technical know-how, expertise and wide experience of multinationals that have joined with the Indian companies have revolutionized almost all aspects in the industry

1.2 HISTORY OF LIFE INSURANCE INDUSTRY

Insurance began as a way of reducing the risk of traders, as early as 5000 BC in China and 4500 BC on Baby loan. Life insurance dates only to ancient Rome “burial clubs” that covered the cost of member’s funeral expenses and helped survivors monetarily. Modern Life Insurance which was started in the late 17th Century in England gradually turned its services to insure the lives of the people.

Achaemenian monarchs of Ancient Persia were the first to insure their people and made official by registering the insurance process in government notary officers. The First Insurance Company in the United States was formed in Charleston, South Carolina in 1732, but it provided only fire Insurance. The state of life insurance in the U.S began in the late 1760 s.

The late 1980s through the 1990s was a period of quite some turmoil for the life insurance business, and Europe, Japan, and the United States can all present their own spectacularly long lists of defaulted life insurance companies. Many of these were relatively small, but some massive defaults of large economic significance also occurred including the United States.

1.2.1 PENETRATION AND DENSITY OF LIFE INSURANCE SECTOR

The spread of insurance growth measured in terms of insurance penetration and measure of density. To see the growth and opportunities in the insurance sector in any
country, insurance penetration, insurance density, premium income and growth in
premium should be measured. Table 1.1 and 1.2 portrays the Life Insurance penetration
and density across the world respectively.

Table 1.1 examines Life Insurance penetration in the global perspective. Life
insurance penetration is measured as a ratio in percentage terms of the insurance
premium to the Gross Domestic Product (GDP).

It is inferred from Table1.1 there is an increasing trend in the life insurance
penetration in India and has almost doubled from 2.15 per cent to 4.40 per cent during the
year 2000-2001 to 2010-2011. The figures are quite impressive if a comparison is made
with other fast developing nations like China, Brazil and Russia but still, India is far
behind developed nations like United States, United Kingdom, Japan, South Korea, and
France though stagnation is apparent in the life insurance penetration of these developed
nations. The world-wide penetration of life insurance is also stagnant rather it declined
from 4.68 per cent in 2000-2001 to 4.00 per cent in 2010-2011. In the Indian context, life
insurance penetration has increased during the period under study, but it is still very low
as compared to the developed nations.

Table1.2 exhibits the life insurance density in the global perspective. Life
insurance density is calculated as a ratio in percentage in terms of premium to total
population.
## COUNTRYWISE LIFE INSURANCE PENETRATION FROM 2001-02 TO 2010-11 (in percentage)

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**Source:** Compiled from IRDA Annual Reports from 2001-02 to 2010-2011.
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Source: Compiled from IRDA Annual Reports from 2001-02 to 2010-2011.
Table 1.2 reveals that the life insurance density in India also shows an increasing trend but still the figures are unimpressive in the global perspective. Life insurance density has witnessed an impressive growth from 9.1 per cent to 55.7 per cent in the post-reform period. The figures related to China also present a similar story, whereas Brazil has improved very fast on this parameter. Japan tops in terms of life insurance density, i.e., 3472.8. In World-wide, the life insurance density has shown an increasing trend and it increased from 235.0 to 364.3 during the period under study. As is evident from the table, despite such a massive growth in the life insurance density in India in the post-reform period, still it is disproportionately small and is just one-ninth of the world average\(^3\).

1.3 LIFE INSURANCE IN INDIA

Insurance in its modern form first arrived in India through a British company called the Oriental Life Insurance Company in 1818, followed by the Bombay Assurance Company in 1823, and the Madras Equitable Life Insurance Society in 1829. They insured the lives of Europeans living in India. The first company that sold policies to Indians with “fair value” was the Bombay Mutual Life Assurance Society starting in 1871. For the next hundred years, life insurance was confined mostly to the wealthy living in large metropolitan areas. By 1956, 154 Indian, 16 non-Indian insurers and 75 provident societies were carrying on life insurance business in India. This business was confined mainly to cites and better-off segments of society. On January 19, 1956, the management of life insurance business of 245 Indian and foreign insurances and provident societies, then Operating in India was taken over by the Central Government and then nationalized on 13th September 1956\(^4\). The Life Insurance Corporation of India was formed by an Act of Parliament viz. LIC Act 1956, with the motto of spreading life insurance to all segments of people in the country.

The eagerly awaited Insurance Regulatory and Development Authority (IRDA) Bill to open the insurance sector India to private and foreign players, was passed by the Lokasabha on December 2, 1999 and by the Rajyasabha on December 1999. After passing this Act the entry of the private players is increased year-by-year. At the end of 31\(^{st}\) March 2011 there are 24 private players operating in India. They are monitored by IRDA.
1.4 STATEMENT OF THE PROBLEM

With a huge population base and large untapped market, life insurance industry has a big opportunity in India for National as well as foreign investors. Till 1999 there was only one public Insurer – LIC services the society. Liberalization and privatization of the insurance sector has brought 23 private players till date and has offered tremendous opportunities. Now the state owned LIC have been compelled to review their philosophy and method of working, in order to be ready for competition with private sector companies.

The rapid expansion of life insurance sector has given rise to a number of problems related to giving service to public image, operational efficiency, productivity and the quality of portfolio of the system as a whole. The profitability of the life insurance companies has also been changed due to change in operating activity like selling new policies, appointment of active agents, giving commission to the agents and evaluating maturity value$^5$.

After liberalization the public life insurer’s market share has declined due to the effective marketing strategy adopted by the private players. In order to sustain in the market, players opt various innovative policies at affordable premiums and enhanced services to withhold their existing policy holders and to attract new ones. The survival of the company may depend on the pro-active strategy in the product designing, marketing techniques, customized service and claim and settlement practices. This may have a direct impact on the productivity and financial efficiency of the insurers. This initiated the researcher to evaluate how these companies are performing in India. This raised the following questions:

1. What is the growth and progress of the life insurance companies in India?
2. What is the productivity level of the life insurers?
3. What is the status of liquidity and solvency of life insurance companies?
4. What are the factors affecting the productivity and financial efficiency of the life insurance companies in India?
1.5 OBJECTIVES OF THE STUDY

The following are the objectives of the study:

1. To analyze the growth and progress of the Indian life insurance companies in India.
2. To find out the productivity efficiency of the life insurance companies in India.
3. To analyze the liquidity and solvency position of the life insurance companies in India.
4. To examine the factors influencing the financial efficiency of the life insurance companies in India.
5. To offer findings and to make suggestions for the development of insurance companies in India.

1.6 SCOPE OF THE STUDY

The Indian insurance sector is rapidly moving towards international standards of free market pricing and new product offerings in the competitive world. The present study is an attempt to study the recent life insurance scenario in the light of changes mentioned in Insurance Regulatory and Development Authority (IRDA) Act in 1999. This research work aims to study the growth and progress of India’s insurance sector as well as studies the productivity level of Indian life insurers and financial efficiency of select life insurance players during 2001-02 to 2010-2011.

1.7 HYPOTHESES OF THE STUDY

In this study the following hypotheses have been framed.

\( H_01 \). The growth and progress of Life Insurance Companies are not directly influenced by gross premium business.

\( H_02 \). The productivity of the Life Insurance Companies are not significantly influenced by its operational parameters.

\( H_03 \). There exists a close association between the financial soundness of the Life Insurance Companies and their total business activity i.e., gross premium.
1.8 METHODOLOGY

By carrying out Analytical study the productivity and financial efficiency of select Life Insurance Companies are ascertained.

1.8.1 DATA AND SOURCES OF DATA

The present study is based on secondary data. Data for this study were obtained from the IRDA annual reports, Bulletins and statement of accounts of the various Life Insurance Companies from 2001-02 to 2010-2011.

1.8.2 SAMPLING DESIGN

Among 24 Life Insurers in India 12 Life Insurance Companies have been selected through purposive sampling method. The selection method is based on the first date of incorporation of the Life Insurance Companies.

1.8.3 DATA ANALYSIS

The collected Data have been analyzed using statistical tools like (i) Compound Annual growth Rate, (ii) Trend Analysis, (iii) Ratio analysis, (iv) Mean, (v) Standard Deviation,(vi) Co-Variance, (vii) Correlation, (viii) Multiple Regression, (ix) Partial productive of labour, Capital and Capital intensity.

1.9 SIGNIFICANCE OF THE STUDY

The study has both academic and practical values. It helps the academicians and researchers to develop new ideas for future study. The reforms of Indian insurance sector have brought substantial changes in the level of competition, business environment, managing strategies, product offered and using advance technology. This study will be useful to the Insurance Regulatory & Development Authority (IRDA) to know the real growth, progress, financial performance activity, and development of public and private life insurance companies in India. The public and private life insurers know the real fact and market share, stages of each insurer and productivity level from the total insurers in the competitive scenario. The policyholders know the progress of life insurance companies and the strength and weaknesses in analyzing the income statement and balance sheet of public and each private life insurers in India. The prospective investors will also come to know the real productivity, solvency liquidity position and financial
efficiency from the research study. The insurance agents, staff members will identify growth and progress, productivity and financial performance activity of Life Insurance Companies in India.

1.10 OPERATIONAL DEFINITIONS AND CONCEPTS

Agent: A licensed person or organization authorized to sell insurance by or on behalf of an insurance company.

Assurance: A statement or indication that inspires confidence; a guarantee or pledge.

Beneficiary: The person(s) or entity named in the policy as the recipient of insurance proceeds upon the death of the insured.

Broker: A licensed person or organization paid by you to look for insurance on your behalf.

Burglary: Coverage against loss as a result of forced entry into premises.

Capital: The money, property and other values by which collectively represent the wealth of an individual or business.

Claim: It is the notification to an insurance company requesting payment of an amount due under the terms of the policy also called insurance claim.

Fiduciary: A person who holds something in trust for another.

Gambling: Where players bet on the result of an event.

Group Life Insurance: On a group of people under a master policy. It is typically issued to an employer for the benefit of employees, or to members of an association.

Insurance Density: It refers to the per capita expenditure on insurance.

Insurance Penetration: It refers to the insurance premiums expressed as a percent of Gross national Income.

Insurance: Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium, and can be thought of as a guaranteed and known small loss to prevent a large, possibly devastating loss.

Insured rate: It is a factor used to determine the amount to be charged for a certain amount of insurance coverage from a premium.
**Insured:** Insured is the person or entity buying the insurance.

**Insurer:** An insurer is a company selling the insurance.

**Intensity:** The amount or degree of energy with which a force operates or a cause acts, effectiveness, as estimated by results produced.

**Maturity:** The date upon which the face amount of a life insurance policy, if not previously invoked due to the contingency covered is paid to the policyholder.

**Nomination:** An act by which the policyholder authorizes another person to receive the policy money.

**Premium:** The payment or one of the regular periodic payments that a policyholder makes to an insurer in exchange for the insurer’s obligation.

**Productivity:** Productivity is the heart of a firm’s performance in competitive market. The productivity reflects the return of resources employed i.e. how well resources utilization has taken place in a given system.

**Reinsurance:** It is an arrangement whereby an original insurer who has insured a risk insures a part of that risk again with another insurer, that means reinsures a part of the risk in order to diminish his liability.

**Risk:** It is the potential harm that may arise from some present process or from some future event.

**Underwriting:** It is the process by which insurers select the risks to insured and decide how much of premium is to be charged for accepting those risks.

### 1.11 LIMITATIONS OF THE STUDY

The following are the limitations of the study

1. This study covers only Life Insurance Companies and not the General Insurance Companies.

2. The present study is based on ratio analysis which has its own limitations.

3. The study is based on the secondary data as such its findings depend entirely on the accuracy of such data.
1.12 ORGANIZATION OF THE CHAPTERS

The study has been structured into seven chapters.

The first chapter deals with Introduction and Design of the study and includes Life insurance worldwide, Life Insurance in India, statement of the problem, Objectives of the Study, Scope of the Study, Hypotheses, Methodology used, Significance of the Study, Operational Definitions used, Limitations of the Study and Chapter scheme.

Chapter Two presents a glimpse of the studies already carried out on different aspects of insurance industry such as efficiency, productivity, profitability, financial performance, and other insurance factors related areas in India and abroad.

A detailed research Methodology, Profile of the selected Area and Profile of the selected Companies has been presented in Chapter Three.

The growth and progress of the Life Insurance Companies has been analyzed in Chapter Fourth.

The productivity of Life Insurance Companies has been analyzed in Chapter Five.

Chapter Six examines the financial efficiency of Life Insurance Companies in India.

Findings, Suggestions, and Conclusion are given in Chapter Seven.
References:


3. IDRA Annual reports from 2001-2011.
