CHAPTER III
THE INDIAN LIFE INSURANCE MARKET
AN OVERVIEW

Marketing in India, with its economic and social contrasts, with a population of more than 1 billion differing enormously with 15 different languages, social customs and living under varying states of economic development from the vastly affluent to the destitute, necessitates the need to deal with several markets at the same time. The life insurance market, hitherto dominated by a governmental monopolistic monolith – LIC, had to make way for a slew of private players who paired with local financial institutions to revolutionize the insurance market in India. At the time of entry of the private players, several demographic and psychographic mega trends augured well for the growth of financial services in general and insurance in particular.

The essence of insurance is to share losses and substitute certainty by uncertainty. Human life is also an income generating asset, albeit, intangible. This asset can be lost through an unexpectedly premature death due to some accident or disease or the asset can also become non-functional through some disability. In case of such unforeseen mishaps, life insurance becomes essential to help the dependents to maintain their life in a normal and regular manner. In this context, it becomes essential to mention that living too long can be equally or sometimes more problematic than dying too young. Hence, very old age can be considered a risk, and insurance takes care of all such risks which need to be safeguarded against. Insurance can minimize the impact of the risk on the owner of the asset and those who
depend upon the asset, but only in terms of economy or finance, not in terms of emotions.

**Insurance and Economic Development**

Investments form the base for the economic development of the country. Investments are the result of mobilization of the savings. An insurance company is a major instrument for the mobilization of the savings of the people. Most of the money collected from public are invested in Government through the IRDA Act, which has made it compulsory that a life insurance company has to invest at least 15% of its controlled fund in the infrastructure and social sector of the country.

**Insurance and Social Security**

In India, under Article 41, of our Constitution, the State within the limits of its economic capacity and development, has to make effective provision for securing the right to work, to education and to provide assistance in case of unemployment, old-age and illness or disability. During the last 50 years, life insurance has become the main vehicle for carrying social security to the public in general and the weaker sections in particular. The institution of insurance has thus proved to be a reliable as well as a viable means of carrying the benefits of social security to the people and it can be said in particular that life insurance ultimately provides social security when it meets the needs of the people.

**Insurance and Financial Security**

Life insurance is seen as an instrument for “Risk Coverage” as well as a long term investment. With the bank interest rates coming down, insurance is more of a financial saving rather than a normal risk covering instrument. With every passing year, life insurance will become an intelligent investment. Now a days, life insurance companies are offering products with life coverage combined with investment appreciation. The life insurance companies have realised that such a Unique Selling Proposition (USP) is a must.

Life insurance in India was nationalized by incorporating Life Insurance Corporation (LIC) in 1956. All private life insurance companies at that time were taken over by LIC. In 1993 the Government of Republic of India appointed RN Malhotra Committee to lay down a road map for privatization of the life insurance sector. While the committee submitted its report in 1994, it took another six years before the enabling legislation was passed in the year 2000, the legislation amending the Insurance Act of 1938 and legislating the Insurance Regulatory and Development Authority Act of 2000. In the same year, the newly appointed insurance regulator IRDA started issuing licenses to private life insurers.

The main objectives\(^1\) of liberalization are

To meet the obligation of WTO to open up the finance sector for international players and competition as a part of liberalization of trade and services.

To induce competition among providers, to give customer a sense of greater choice of products and services.

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To promote FDI flow to help build better infrastructure.

To reorganize insurance market through a regulatory authority for giving better deal to customers.

To promote professionalism in insurance and insurance related trade and occupations.

To make Indian insurance market globally competitive.

**Liberalisation and its Implementation**

The main purpose behind the liberalisation of the insurance industry was to call for a large dose of social infrastructure, propped up by the private insurance companies. Supporters of the IRDA Bill bickered that opening up of the insurance sector to private companies would ensure better conditions for consumers as more products would be introduced with reduced premium rates. It would be mandatory for insurance companies to deal with the veracity of competition.

But there were also some manifestation against the opening up of insurance sector to private players. People thought that liberalization could influence the industry in the following ways.

1. The real competition would be on profits and not on prices.
2. People may find it tough to take policies which they actually require, since it is expensive.
3. The claim settlement rate would show a sliding indication as companies tie with each other to ensure higher profit margins.
4. There was always a probability of deception or failure among private companies, as the core drive is not of service nature.
5. The private insurance companies in their zeal to cut cost and to improve profitability, can ignore the basic interest of people.

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The influx of foreign insurance company is observed by the AIIEA\(^4\) (All India Insurance employees Association) as parallel to pre 1956 situation where the Indian insurance sector was nationalized after a sequence of scandals that rocked the Indian parliament. Mr. Sundaram (General Secretary of the AIIEA) thought that the Government was violating the oath of strengthening the LIC & GIC by coercing the public companies to unviable operation. As a protest to the liberalisation the AIIEA has campaigned across the country, conducting Jathas, street corner meetings and street plays.

However the monopoly was purged by The Malhotra committee\(^5\), which gave birth to the liberalization in insurance sector. This was the need of the hour, as there was strong proposal from the side of the Government, which focused on creating an efficient and competitive financial system appropriate for the requirements of the company.

**Liberalized Insurance Market 2000 AD**

The year 2000 was a defining moment in the history of the Indian insurance industry. For the first time, the sector was opened up to the private sector. The three primary reasons behind the move to privatize the insurance sector were\(^6\)

- Need for funds for financing the infrastructure development initiatives in the country.
- Increasing the insurance penetration in the country to march with the global standards.

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Increasing the reach of insurance to cater to the needs of rural India.

In 2000 the Government passed a resolution that enabled private participation in the financial services sector in India. At the time of entry of private players, the Life Insurance Corporation was the major force to reckon with. With a large force of nearly 2000 branches and 5,00,000 sales agents LIC seemed formidable with almost 190 million policies outstanding. Despite the impressive statistics, insurance premia paid accounted for only 2.3% of the total GDP.

ICICI Prudential was the first private insurer to open shop. After its debut, there has been no looking back. Over a dozen private players in the life insurance market had made their entry.

(T S Ramakrishna Rao)\textsuperscript{27} The insurance market has really come to life. Prior to the entry of the private sector players, the insurance market in India grew at the average rate of 10-15%. In the last five years, (2005) the growth has been of the order of 20%. There has been a quantum jump in the first year of the life insurance premium in the post 2000 period. The growth has been of the order of 260% in the last five years. Most of the new growth in the last five years has been coming from private sector companies. The private players in the last five years were able to make a significant dent in the kitty that has been exclusively enjoyed by the LIC. As in December 2005, their market share in the life insurance segment was over 20%. The insurance penetration level, which has always stuck near an average of 1.5%, has in the post liberalization period crossed the 2% mark and stands perched at 2.6%. The insurance industry has become another success story of the positive benefits of the competition and allowing entry of private and foreign players.

The Indian life insurance market has been a mixed bag of rapid growth in some areas and lagging behind in several other areas. Rectification of the imbalance has been attempted by liberalizing the industry and opening it up to private participation.

The Post-Liberalization Scenario

(U Jawaharlal)\textsuperscript{28} The growth of the life insurance business during the post-liberalization period in India presents some very interesting features. When one looks at it on a progressive basis, it can be observed that the year-on-year growth has been steady. Similarly, private players have steadily consolidated their strengths and

\textsuperscript{27} T S Ramakrishna Rao, opcit pp14

consistently increased their overall market share. In a market which has a monolithic player like the Life Insurance Corporation of India operating for more than four decades and thereby making its position rock-solid, the realignment of forces has been very gratifying. It not only indicates that competition keeps the new players on their feet, but also that the incumbent is being made to be inventive and open to new ideas.

**List of Life Insurers. (September 2007)**

**Life Insurer in the Public Sector**

1. Life Insurance Corporation of India.

**Life Insurers in the Private Sector**

1. Bajaj Allianz Life.
2. Tata AIG Life.
3. ICICI Prudential Life Insurance.
4. HDFC Standard Life.
5. Birla Sunlife.
6. SBI Life Insurance.
8. Aviva Life Insurance.
9. Reliance Life Insurance Company Limited – Formerly known as AMP Sanmar LIC.
10. Metlife India Life Insurance.
11. ING Vysya Life Insurance.
12. Max Newyork Life Insurance.

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29 Life Insurance Corporation of India – Wikipedia, the free encyclopedia.
The success of the first lot has lured a new set of players in the market. The second wave of entrants include Bharati, Shriram, Future Group (already licensed) and Bank of Baroda-Andhra Bank, Bank of India-Union Bank, IDBI Bank-Federal Bank, Religare and DLF. A host of foreign companies, including Ergo of Germany and Travelers of the US, are also expected to finalise their joint ventures (2007, November)\(^\text{30}\)

One of the greatest takeaways of the liberalization in the insurance sector has been the discernible shift from the seller’s to the buyers’ market. Competition has been the key, and has resulted in innovation, new delivery channels and new product offered.

Although the leader, the LIC, continues to lead, one thing is certain, the increased competition and the ongoing liberalization in the insurance sector have made one beneficiary ‘THE CONSUMER’ very happy. The consumer has won the race and emerged as the clear winner. The consumers is the King and long live the King.

T S Ramakrishna Rao (2006)\(^\text{31}\) in terms of the premium income, India is considered as the sixth largest market in the globe. Being the world’s seventh largest country and the second most populous one, the type of opportunity, the country’s hold of insurance business can be envisioned. Besides this, the country has one of the youngest population segments in the entire world and a burgeoning middle class population of around 30%. The global penetration levels are around 4.7% as against our India’s 2.6%, there is tremendous potential to be tapped.

The private players, have contributed significantly to the fast spread of insurance business in the country, and they have silenced the critics who were very pessimistic about their making any dent in the industry which was totally dominated by the state owned player like LIC. In terms of incremental business private players and foreign joint ventures continued to grab a larger piece of the pie. Although premiums and the asset pools have soared, there is still scope for growth. The opening up of the insurance sector to the private insurers has definitely been a positive development. Impressed by their performance, there is a serious thought that the regulators should have allowed their entry much earlier.

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\(^\text{31}\) T S Ramakrishna Rao , pp 15-16. opcit.
Insurance penetration in India is one of the lowest (2007)\textsuperscript{32}. Contribution by way of insurance premia has shot up from 1.2% to 4.1% of the GDP during the same period. Interestingly, insurance penetration in the US stands at 4% of the GDP, but some of the participants pointed out that India still has some distance to cover in improving penetration. The US which ranks poorly in GDP terms, has a stronger social security system with the Government spending much more on the average American.

India is, however, ahead of China where insurance accounts for just 1.7% of the GDP. In other developed markets such as the UK and Japan, insurance penetration stands much higher at 13.1% and 8.3% of the GDP respectively. India constitutes 16% of the world population, but accounts for only 1.68% of the world insurance market. But favourable demographic profile, rising incomes and growing investments in insurance and pensions should see this number go up. According to the data collected by the Life Insurance Council, the life insurance industry has made a huge leap across several other parameters in the liberalized era. \textbf{Figure 3.1}

\textsuperscript{32} The Business Line, Sept, 18, 2007.
At the time of entry of the private players, several demographic and psychographic mega trends augured well for the growth of financial services in general and insurance in particular. There was a favorable demographic profile, rising incomes and huge investments in the insurance sector at the time of the entry of the private players. One important factor that was very positive for potential growth was that a substantial segment of the middle class population that remained ‘unbanked’ (40%) and the penetration of insurance was only 13% of the total insurable population. Besides this, economic growth at 6.5% and the ‘demographic dividend’ at 55% of the population in the productive age group of 15-60 years were clear indications for exponential growth.

Liberalization of the insurance sector has facilitated the entry of more players of diverse complexion including those from the private sector with a foreign pedigree.

33 Multi Dimensions Research, Market Research In India, Playing to the End Game – Making Strategic Choices With Complex Market Dynamics, 2000, pp1-2.
for selling insurance products. The injection of additional distributor channels has added to the flavor of more competition. Customers now have a wider choice of selection of insurance providers giving them a voice and a unique identity long denied to them.

Kannan, Manivannan and Sathishkumar (2005) revealed that the market potential for private companies is greater as the Indians are of the opinion that private companies would be able to perform well. The insurance company should concentrate on the areas like loss prevention, assured returns, long term investment etc.

**Life Insurance Corporation of India**

**Objectives, Vision and Mission of LIC**

* Spread Life Insurance widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.

- Maximize mobilization of people's savings by making insurance-linked savings adequately attractive.
- Bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.
- Conduct business with utmost economy and with the full realization that the moneys belong to the policyholders.

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34 Kannan K.V., Manivannan L., Satishkumar R, [www.indiamba.com](http://www.indiamba.com)

35 LIC, Vision, www, wikipedia, the free encyclopedia, pp1-3,
• Act as trustees of the insured public in their individual and collective capacities.

• Meet the various life insurance needs of the community that would arise in the changing social and economic environment.

• Involve all people working in the Corporation to the best of their capability in furthering the interests of the insured public by providing efficient service with courtesy.

LIC continues to be the dominant insurer even in the liberalized scenario of the Indian insurance market and is moving fast on a new growth trajectory surpassing its own past records. LIC has issued over 1 crore policies during the year 2005. It has crossed the milestone by issuing 1,01,32,955 new policies by October 15th 2005, showing a healthy growth rate of 16.67% over the corresponding period of the previous year.

Over the last five decades, Life Insurance Corporation of India has become a household name, when it comes to providing insurance cover to millions of people in India.

ICICI Prudential Life Insurance Company.

ICICI Prudential Life Insurance Company is a joint venture between ICICI Bank and Prudential Plc – a leading international financial services group headquartered in the United Kingdom. Total capital infusion stands at Rs. 29.32 billion, with ICICI Bank holding a stake of 74% and Prudential Plc holding 26%.

ICICI Prudential was the first life insurer in India to receive a National Insurer Financial Strength rating of AAA (Ind) from Fitch ratings. For three years in a row, ICICI Prudential has been voted as India’s ‘Most Trusted Brands.’ For the past six years, ICICI Prudential has retained its leadership position in the life insurance industry with a wide range of flexible products that meet the needs of the Indian customer at every step in life.

HDFC Standard Life Insurance

HDFC Standard Life Insurance Company Ltd. is one of the leading private life insurance companies in India. HDFC Standard Life Insurance Company Ltd. is one of India’s leading private life insurance companies, which offers a range of individual and group insurance solutions. It is a joint venture between Housing Development Finance Corporation Limited (HDFC Ltd.), India’s leading housing finance institution and The Standard Life Assurance Company, a leading provider of financial services from the United Kingdom. Rated by ‘Business world’ as ‘India's Most Respected Private Life Insurance
SBI Life Insurance Company Limited

SBI Life Insurance Company Limited, is a joint venture company between State Bank of India and Cardif SA of France. SBI holds 74%, while the joint venture partner Cardif SA has 26%. SBI life has become the first life insurer in India to receive the highest financial strength rating of AAA from CRISIL.

The other key milestones of SBI Life are

- First private life insurance company to make profits.
- Ranked third amongst its private peers in terms of new business premium income during FY 06-07.
- It has been rated as the most trusted private sector life insurance company, according to a survey conducted by Brand Equity in association with AC Nelson ORG-MARG and The Economic Times Intelligence Bureau.

Bajaj Allianz Life Insurance Company Limited

Bajaj Allianz Life Insurance Company Limited, is a joint venture leading global insurance company Allianz and motor cycle maker Baja Auto. The company provides life insurance services to customers throughout India. Its product caters to a wide spectrum of customers and needs, including companies, individuals, children, risk care, and lifetime care. The company has crossed 50 lac policies and Rs. 10000 crore premium this FY 2006-2007.

Reliance Life Insurance.

Reliance Life Insurance Company Limited is a part of the Reliance Capital Ltd. Reliance Capital is one of India’s leading private sector companies, and ranks among the top 3 private sector financial services and banking in terms of net worth. Reliance Life Insurance is an associate of Relaince Capital Limited, which along with its associates has acquired 100% shares in AMP Sanmar Life Insurance Company Limited. RLI has a pan presence and a range of products catering to individuals as well as corporate needs. A total of 16 products covering savings, protection and investment requirements.

Life Insurance Statistics

(Source India Insurance Research and Consultants)

Premiums collected by LIC, for the period April to October, 2007 has gone down by 10.4% as compared to the corresponding period during the previous year. Premiums collected by the private insurers, on the other hand increased by 67.7%. The share of private players has consequently increased from 17.4% to 28.3%.
In terms of number of policies, LIC showed a growth of 50.4%, whereas private insurers outperformed by growing at 69.3%. The share of private players has consequently increased from 16.5% to 18.2%.
Premiums collected up to October ’07 by private life insurers -
Rs 10,248 Cr, up 67.7% from the same period in 2006

Premiums collected by LIC, for the period April to September, 2007 has
gone down by 2.9% as compared to the corresponding period during the previous
year. Premiums collected by the private insurers, on the other hand increased by
66.9%. The share of private players has consequently increased from 21% to 31.4%.

Figure 3.4

Premium Collections and Number of Policies

Source: India Insurance Research and Consultants

In terms of number of policies, LIC showed a growth of 61.6%, whereas
private insurers outperformed by growing at 99.2%. The share of private players has
consequently increased from 19.9% to 23.4%.

Premiums collected up to September ’07 by private life insurers
Total amount – Rs 10,398 Cr, up 66.9% from the same period in 2006

ICICI Prudential and Bajaj Allianz have emerged as clear leaders, their shares individually being at least twice the nearest competitor.