INTRODUCTION

THE CONCEPT OF INSURANCE

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to the modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers’ contracts. Overseas traders practiced a system of marine insurance.

The joint family system, peculiar to India, was a method of social insurance of every member of the family on his life. The law relating to insurance has gradually developed, undergoing several phases from nationalisation of the insurance industry to the recent reforms permitting entry of private players and foreign investment in the insurance industry.

Insurance : A Matter of Union List

The Constitution of India is federal in nature in as much there is division of powers between the Centre and the States. Insurance is included in the Union List, wherein the subjects included in this list are of the exclusive legislative competence of the Centre. The Central Legislature is empowered to regulate the insurance industry in India and

hence the law in this regard is uniform throughout the territories of India.

DEVELOPMENT AND GROWTH OF THE INSURANCE INDUSTRY IN INDIA

The development and growth of the insurance industry in India has gone through three distinct stages:

Formation of the Insurance Industry in India

Insurance law in India had its origins in the United Kingdom with the establishment of a British firm, the Oriental Life Insurance Company in 1818 in Calcutta, followed by the Bombay Life Assurance Company in 1823, the Madras Equitable Life Insurance Society in 1829 and the Oriental Life Assurance Company in 1874. However, till the establishment of the Bombay Mutual Life Assurance Society in 1871, Indians were charged an extra premium of up to 20% as compared to the British.\(^2\)

The first statutory measure in India to regulate the life insurance business was in 1912 with the passing of the Indian Life Assurance Companies Act, 1912 (which was based on the English Act of 1909). Other classes of insurance businesses were left out of the scope of the Act of 1912, as such kinds of insurance were still in rudimentary form and legislative controls were not considered necessary.

General insurance on the other hand also has its origin in the United Kingdom. The first general insurance company, Triton Insurance Company Ltd., was promoted in 1850 by British nationals in Calcutta.

The first general insurance company established by an Indian was Indian Mercantile Insurance Company Ltd. in Bombay in 1907. Eventually, with the growth of fire, accident and marine insurance, the need was felt to bring such kinds of insurance within the purview of the Act of 1912. While there were a number of attempts to introduce such legislation over the years, non-life insurance was finally regulated in 1938 through the passing of the Insurance Act, 1938. The Act of 1938, along with various amendments, over the years continues till date to be the definitive piece of legislation on insurance and controls both, life insurance and general insurance. General insurance, in turn, has been defined to include “fire insurance business”, “marine insurance business” and “miscellaneous insurance business”, whether singly or in combination with any of them.

**Nationalization of the Insurance Business in India**

On January 19, 1956, the management of life insurance business of two hundred and forty five Indian and foreign insurers and provident societies then operating in India was taken over by the Central Government. The Life Insurance Corporation (“LIC”) was formed in September 1956 by the Life Insurance Corporation Act, 1956 which granted LIC the exclusive privilege to conduct life insurance business in India. The concept of insurance laws has been prevalent in India since ancient times. Subsequently, a comprehensive legislation on insurance was introduced by enactment of the Insurance Act, 1938.
But the real breakthrough came in 1999 with the passing of the IRDA Act, 1999. This not only opened the gates for the foreign investors and private players but it also was the first concrete step taken with the view to protect the interests of the policy holders, to regulate, promote and ensure orderly growth of the insurance industry. In addition to the specific insurance laws, various decisions passed by the judiciary bodies have also been setting the rules for the industry. Recently the Bombay High Court has ruled that life insurance policies can be traded and assigned freely.³ This judgment is thought to give a boost to the growing business of assigning insurance policies. However, there have been mixed opinions on the same. Thus, further amendments to insurance laws would be required to help bring clarity in many such issues which have arisen due to the complex nature of the business in today’s world.

The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all.⁴ However, an exception was made in the case of any company, firm or persons intending to carry on life insurance business in India in respect of the lives of “persons ordinarily resident outside India”, provided the approval of the Central Government was obtained. The exception was, however, not absolute and a curious prohibition existed. Such company, firm or person would not be permitted to insure the life of any “person ordinarily

⁴ http://www.irda.gov.in/ADMINCMS/cms/LayoutPages_Print.aspx site visited on 21/03/2012.
resident outside India”, during any period of their temporary residence in India. However, the LIC Act, 1956 left outside its purview the Post Office Life Insurance Fund, any Family Pension Scheme framed under the Coal Mines Provident Fund, Family Pension and Bonus Schemes Act, 1948 or the Employees’ Provident Funds and the Family Pension Fund Act, 1952.

### TABLE : 1.1
**SOME KEY STATISTICS OF PRE AND POST LIBERALISATION PERIOD**

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Pre-liberalisation Period</th>
<th>Post-liberalisation Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Players in the market at the end of the period</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>Growth in the no. of policies sold in a F.Y.</td>
<td>9.23 lacs to 199 lacs</td>
<td>199 lacs to 532 lacs</td>
</tr>
<tr>
<td>Growth in Life insurance First premium in F.Y.</td>
<td>Rs. 13.06 Crs (1957-58 ) to Rs. 6,260.08 Crs. (2000-01)</td>
<td>Rs. 6,260.08 Crs. (2000-01) to Rs. 1,09,894.02 Crs (2009-10)</td>
</tr>
<tr>
<td>Growth in Total Life Insurance Premium</td>
<td>Rs. 13.06 Crs (1957-58 ) to Rs. 34,898.48 Crs. (2000-01)</td>
<td>Rs. 34,898.48 Crs. (2000-01) to Rs. 2,65,450.00 Crs (2009-10)</td>
</tr>
<tr>
<td>Life Insurance penetration (at the end of the period)</td>
<td>1.77%</td>
<td>4.60%</td>
</tr>
<tr>
<td>Life Insurance Density in US$ term (at the end of period)</td>
<td>7.6</td>
<td>47.70</td>
</tr>
<tr>
<td>Number of Lives yet to be insured</td>
<td>90%</td>
<td>80%</td>
</tr>
</tbody>
</table>

Entry of Private Players

Since 1956, with the nationalization of insurance industry, the LIC held the monopoly in India’s life insurance sector. GIC, with its four subsidiaries, enjoyed the monopoly for general insurance business. Both LIC and GIC have played a significant role in the development of the insurance market in India and in providing insurance coverage in India through an extensive network. For example, currently, the LIC has a network of 7 zones, 100 divisions and over 2,000 branches. LIC has over 5,50,000 agents and over 100 million lives are covered.5

THE LIBERALISATION ERA

From 1991 onwards, the Indian Government introduced various reforms in the financial sector paving the way for the liberalization of the Indian economy. It was a matter of time before this liberalization affected the insurance sector. A huge gap in the funds required for infrastructure was felt particularly since much of these funds could be filled by life insurance funds, being long tenure funds.

Consequently, in 1993, the Government of India set up an eight-member committee chaired by Mr. R. N. Malhotra, a former Governor of India’s apex bank, the Reserve Bank of India, to review the prevailing structure of regulation and supervision of the insurance sector and to make recommendations for strengthening and modernizing the regulatory

system. The Committee submitted its report to the Indian Government in January 1994. Two of the key recommendations of the Committee included the privatization of the insurance sector by permitting the entry of private players to enter the business of life and general insurance and also the establishment of an Insurance Regulatory Authority.

The insurance sector is a colossal one and is growing at a speedy rate of 15-20% p.a.. Together with banking services, insurance services add about 7% to the country’s GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development, at the same time strengthening the risk taking ability of the country.\(^6\)

**Role of IRDA**

IRDA’s primary function is to protect consumer interests. This means ensuring proper disclosure, keeping prices affordable but also insisting on mandatory products, and most importantly making sure that the consumers get paid by insurers ensuring further the solvency of insurers. Growth of insurance business entails better education and production to customers, creating better incentives for agents and intermediaries. It has evolved guidelines on the entry and functions of such intermediaries. Licensing of such agents and brokers are required to check their indulgence in activities such as twisting, fraudulent practices,

\(^6\) http://www.irda.gov.in/ADMINCMS/cms/LayoutPages_Print.aspx site visited on 21/03/2012.
rebating and misappropriation of funds.

**Market Structure**

The market structure for insurance markets should be tested as to see whether there is monopoly (state or regulated) or should there be unlimited private entry or should there only be a few regulated players. Keeping in view the recommendations of Insurance Reforms Committee that a limited number of high capital private companies be licensed, and no firm be allowed to operate both in life and non-life insurance,

**Role of Information Technology**

The business of selling life insurance requires assessing the profile of the customer and assigning the right policy. This process is facilitated by a database and is completely driven by information technology. If it uses this network of database to offer their products, it would be able to utilize this vastly underutilized capacity.

**Creating Insurance Awareness**

It is the need of the hour to create insurance awareness among the general public. It will require a whole lot of efforts on the supply and distribution side.

**Innovative Products**

Insurance companies should offer innovative products to tap huge amount of resources for the developmental activities. In developed economies more number and types of insurance products are sold. Focus
of insurance industry is changing towards providing a mix of both protection/risk cover and long term investment opportunities.

**Insurance Sector in India - Future Scenario**

In India, only 10% of the market share has been tapped by LIC and GIC and the balance 90% of the market still remains untapped. This vast potential can be tapped only by a large number of insurance companies. To serve the population of more than 120 crore Indians, Indian Insurance market offers tremendous opportunities to private insurers. With the increase in the life expectancy of individuals and disintegration of joint-family system, each individual tries to arrange cover for himself and for his family. Therefore, coverage of insurers is expected to grow very fast.

**Grievances of Customers**

The Insurance Industry occupies a very important place amongst financial services all over the world. Reforms in the Insurance Sector were initiated with the passage of the IRDA Bill in December 1999. The IRDA has a task of framing regulations, amongst others, grievances handling mechanism of customers of Life Insurance Companies. At present along with Life Insurance Corporation of India, being a public sector Life Insurance Company, there are twenty two other private limited Life Insurance Companies operating in the Insurance Sector. Customer satisfaction is a measure of how products and services meet or

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surpass customer expectation. The dissatisfaction amongst the customers in the area of services of the Insurance companies leads to grievances/dissatisfaction of customers.

**Review of Literature**

While earlier studies on life insurance sector mainly focused upon LIC, it was only after reforms in this sector that certain studies covering private players have taken place. Among early studies, **Arora (2002)** highlighted that LIC was likely to face tough competition from private insurers having large established network and their trained intermediaries throughout India. **Verma (2003)** analyzed the various types of products offered by the public sector giant LIC and also the new global players in the private sector. **Kumar and Taneja (2004)** highlighted the opportunities and challenges before the insurance industry in India due to liberalization, globalization and privatization.

**Bhattacharya (2005)** advocated that bancassurance provided the best opportunities to tap the large potential in rural and semi urban areas as banks have a strong network of more than 40000 branches in these areas. He suggested that the insurers should focus on Single Premium

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policies, Unit Linked Insurance, Pension Market and Health Insurance. **Kumar (2005)**\(^{12}\) highlighted that private insurance players introduced a wider range of insurance products and set up brand promotion as part of their new strategy. These new covers had flexibility and added benefits to suit the needs of customers who were unsatisfied with the traditional and rigid plans. **Kulshrestha and Kulshrestha (2006)**\(^{13}\) highlighted that demand for life insurance in rural India was expanding at the annual rate of 18 percent as compared to 3.9 percent in urban areas which provided good opportunity for life insurers to perform.

**A.A. Maiyanki, S.S. Mokhtar (2011)**\(^{14}\) elaborated that in this IT age, we have witnessed a substantial growth of internet based services. One of the key challenges of the online as a service delivery channel is how they manage service quality, which holds a significant importance to customer satisfaction. Maiyanki and Mokhtar aimed at gaining a better understanding of the service quality dimensions that affect customer satisfaction in online marketing from a customer perspective. The data were collected through a questionnaire with 127 online shoppers. Exploratory factor analysis was conducted to narrate the important service quality factors in online marketing. This study identifies seven service quality dimensions having a strong impact on customer satisfaction.

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satisfaction.

A. Ismail, N. Ali, M. M. Abdullah, B. Parasuraman (2009)\(^{15}\)
The authors highlighted that service quality is a critical determinant of organizational competitiveness. The ability of an organization to provide good quality of service also motivates customers, and customers’ perceived value which leads to increased satisfaction.

A. K. Ahmad, (2011)\(^{16}\) The authors had explored the adoption of e-banking functionality and investigates the impact of e-banking on the outcomes of customer satisfaction namely, loyalty and positive words-of-mouth within the Jordanian Commercial Banks.

A. P. Korda, B. Song (2011)\(^{17}\) The authors investigated the concept of service quality in the marketing literature. Several measurement scales have been proposed, but some of these take into account only the method of measurement and ignore the idea that the same instrument may not be able to be automatically applied in different industries or in different cultures.

B. Das, S. Mohanty, N. C. Shil (2008)\(^{18}\) have made an earnest attempt to study the behavior of the investors in the selection of these two


alternative investment vehicles in an Indian perspective by making a comparative study. They observed that as regards returns on investment, banking is a better alternative compared with the purchase of insurance policy. However, the insurance policy has an extra advantage of providing life cover. The selection of the alternative depends upon individual preference of an investor. C. Chatzigeorgiou, E. Christou, P. Kassianidis, M. Sigala (2009) examined that the marketers have been working tirelessly to determine the factors that lead to customer satisfaction presuming that customer satisfaction automatically leads to repeated sales. Service quality, customer satisfaction, customer loyalty and repeat business are issues well recognized and investigated by researchers. C.B. Wong (2009) The objective of this research was to develop a model that examines the direct effects of customer satisfaction and switching costs on customer retention as well as moderating effect of switching costs on the relationship between customer satisfaction and customer retention in the segments of basic and advanced Internet banking users.

D. Dordevic, D. Cockalo, Z. Sajfert, M. Nikolić (2009) have studied the research the process of modelling a system (processes) for

providing satisfaction to a company’s customer needs. The cybernetic model assumes a process approach and appropriate marketing research at the beginning and corresponding evaluation at the end; they have also harmonised with the conditions in which Serbian companies (production and services) work and it is created to enable easier managing of these processes with the aim of achieving business excellence.

G. Dominici, (2010)\textsuperscript{22} The authors focused that in order to be successful in the market it is not sufficient to attract new customers. Managers must concentrate on retaining existing customers, as also to implement effective policies of customer satisfaction and loyalty. G. K. Agyapong (2011)\textsuperscript{23} The author objectively examined the relationship between service quality and customer satisfaction in the utility industry (telecom) in Ghana. The results showed that all the service quality items were good predictors of customer satisfaction.

H. Tulai (2009)\textsuperscript{24} Besides the established functions of the insurance, those regarding the prevention and the compensation for damages and the payment of the insured sums, in the last decades, the financial side of insurances has got a big importance. On one side the specialized companies are more and more involved in the financial

\begin{footnotesize}
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market, looking the best investments; on the other side, they offer the
clients a very wide range of life insurances with capitalized component.

I. Bostan (2011)\textsuperscript{25} The author authenticated the present scenario of
a vision in the sphere of the problematic of assets and liabilities’
evaluation that are reflected in the balance sheet of the insurance
companies, inside the theory of the contingent claims, and of the marginal
theory inside the insurance sphere.

J. N. Mojekwu (2011)\textsuperscript{26}, The author examined the various
intricacies of Life Insurance contract. He opines that the Life Insurance
Contract is one under which one party pays a certain sum of money
referred to as premium to another party in return on the happening of
specified contingency(ices). These contingencies include: deaths,
maturity, surrender lapsed and paid-up. Based on the findings, the study
recommends that life insurance companies should enlighten the public
more on the benefits of life assurance and evolve some incentives so as to
avoid the negative impact of these modes of decrement on life assurance
portfolios.

K. Ravichandran, B. T. Mani, S. A. Kumar, S. Prabhakaran
(2010)\textsuperscript{27} The authors examined that the financial liberalization has led to

\textsuperscript{25} I. Bostan,(2011) Implications of European Directives in the Assessment of Insurance Companies,
*Theoretical and Applied Economics*, Vol. XVIII No. 3(556), 131-140.
\textsuperscript{26} J.N. Mojekwu, (2011), Study of Modes of Exit of Life - Insurance Policy Holders in Nigeria:
\textsuperscript{27} K. Ravichandran, B. Mani, S. A Kumar, S. Prabhakar, (2010), “Influence Of Service Quality On
Customer Satisfaction Application Of Servqual Model”, *International Journal of Business and

(15)
intense competitive pressures and private banks dealing in retail banking are consequently directing their strategies towards increasing service quality level which fosters customer satisfaction and loyalty through improved service quality. The results also apply to the insurance sector as well.

L. V. Rao (2008) The author dwelt with the life insurance industry in global perspective and of the opinion that the industry is facing major changes and the leading insurers are innovating their services in order to compete. Services are the engines of expansion in the modern economies and service innovation is of vital importance to these service organizations. In this exploratory study, an attempt is made by the author to explain how service firms actually innovate. Zonal managers of select ten private life insurance companies in India were interviewed.

M. A. Okunnu (2007) The paper examines the level of awareness of the importance of Life Insurance policy among the Nigerian students using students of Lagos State University, Ojo-Lagos, in the South-West part Nigeria as their case study. M. H Siddiqui, T. G. Sharma (2010) The authors investigated that Liberalization of the financial services sector has led to insurance companies functioning increasingly under competitive pressures; so companies are consequently

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directing their strategies towards increasing customer satisfaction and loyalty through improved service quality.

M. S. Malik, (2011)\textsuperscript{31} conducted the study with reference to the Pakistan’s insurance companies, he is of the view that the Life Insurance Industry is not lacking behind in using the latest IT systems for performance improvements.

Describing the major causes of lapsation of policies J. Hari Narayan\textsuperscript{32}, Editor, IRDA Journal, writes that the evil practice of rebating in whatever form is a major reason for several of the discontinued policies. While it is termed as a punishable offence, it should be appreciated that only a voluntary abandoning of the practice could bring in the desired effect rather than an enforced diktat.

Srinivasan Varadharajan\textsuperscript{33} also found that lapse rates vary greatly among the Indian insurers. If insurers are forthcoming in sharing their data to an organization agnostic and Indian industry specific study, then the lapse factors common to all the insurers and lapse factors specific to organizations can be recognized. This would help all the organizations involved. A sanitized report could be published at a regular


\textsuperscript{32} J. Hari Naryan, Editor, \textit{IRDA Journal}, Volume IX, No. 8, August, 2011, 1.

frequency for public consumption. Sandeep Batra\textsuperscript{34} concluded that both the life insurance sector and the non-life sector are susceptible to money laundering. Adherence to various measures set out in IRDA guidelines will help companies avoid reputational, legal and financial risks.

The present topic of research entitled ‘Life Insurance in India: A Study with Special Reference to Insurance Regulatory and Development Authority Act, 1999’ aims at studying the progress of life insurance business in India especially after the enactment of IRDA Act, 1999, the protection afforded to the consumers i.e. the insureds by the Consumer Protection Act as also the evolution of life insurance jurisprudence in India. The objects of the study can be summarised as given below:

**OBJECTIVES OF THE STUDY**

- To study the life insurance legislation in India
- To study the history of life insurance in India.
- To study the IRDA Act, and regulations made thereunder.
- To study the role of IRDA Act, 1999 in promotion and development of life insurance business in India and safeguarding the interests of stakeholders.
- To analyse the impact of privatisation of life insurance business on the LIC.

To suggest measure for the development of Life Insurance Business in India.

RESEARCH HYPOTHESIS

Privatisation of life insurance business in India had a positive impact on the development and growth on the life insurance business. The IRDA Act 1999 has proved to be successful in regulating the insurance business in India. The Consumer Protection Laws had a positive impact on the life insurance business in India.

RESEARCH METHODOLOGY AND DESIGN

Research Methodology is regarded as a sequence of stages underlying the design and implementation of a research project, including the establishment of the research purpose and objectives, information value estimation, research design and implementation. The term methodology is closely related to the term epistemology, which stems from the Greek word episteme; which is the term used for knowledge and is the philosophy of how we come to know (Aaker et.al. 2001). Trochim (1997) identifies the intimate relationship between epistemology and methodology, the former involving the philosophy of how we come to know the world and the later involving the practice. Research design refers to “those group of small worked-out formulas from which prospective researchers can select or develop one or more that are

suitable for their specific research goals and objectives”.

The study is based upon secondary data which has been collected from annual reports of IRDA, LIC of India, RBI Bulletins and the text and references books available on the subject. The method of research used in the proposed study is analytical, comparative and critical. Secondary sources of information have been resorted to for completion of the study. Statutes like Insurance Act, 1938 and the Life Insurance Corporation of India Act, 1956, General Insurance Business (Nationalisation Act, 1972) and the IRDA Act, 1999 and the other acts controlling the insurance sector in India have been consulted. The available literature/books commentaries have been critically studied and referred to thoroughly. Appropriate places relevant foreign judgments and case laws also form the subject matter of the study. The articles published in various journals relating to insurance business have also been referred to.

**Development of Insurance Laws in India**

Laws help individuals, businesses, and governments interact in orderly fashion. The legal system enables people and business to anticipate the outcomes of their actions with some degree of certainty, conduct their affairs with a minimum of conflict, and, when conflicts do arise, resolve them in an equitable manner.

**LIFE INSURANCE IN INDIA: Pre and Post Privatisation**

When life insurance companies started operating in the middle of
20th century in the country, the evil play natural to all business had its sway. There was a lot of cut throat competition as well as profiteering. As a result Life Insurance Corporation of India (LIC) came into existence on 1st September, 1956 after nationalization of all the 245 companies engaged in life insurance business. However, Government made a paradigm shift in the economic policy by adopting the process of liberalization, privatization and globalization at the end of previous decade. From its very inception, the LIC has made impressive growth LIC has always been striving for further improvement in the quality of service. Later a committee was set up under the chairmanship of Mr. Malhotra, Ex-governor of RBI for undertaking various reforms in the insurance sector in the light of new economic policy. The Committee which submitted his report in 1993 recommended the establishment of a special regulatory agency along the lines of SEBI and opening of insurance industry for private sector.

This move was aggressively opposed by the various trade unions then operating in the insurance industry which led to some delay in implementation of Malhotra Committee’s recommendations. However, the Government passed Insurance Regulatory and Development Authority (IRDA) Act in 1999 and established IRDA to regulate the insurance business in the country. As a result, private sector was allowed entry both in general and life insurance sector in India.


**TABLE : 1.2**

NUMBER OF LIFE INSURANCE COMPANIES IN PUBLIC AND PRIVATE SECTORS

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>1</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2001-02</td>
<td>1</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>2002-03</td>
<td>1</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>2003-04</td>
<td>1</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>2004-05</td>
<td>1</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>2005-06</td>
<td>1</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>2006-07</td>
<td>1</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>2007-08</td>
<td>1</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>2008-09</td>
<td>1</td>
<td>21</td>
<td>22</td>
</tr>
<tr>
<td>2009-10</td>
<td>1</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>2010-11</td>
<td>1</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>2011-12</td>
<td>1</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>2012-13</td>
<td>1</td>
<td>23</td>
<td>24</td>
</tr>
</tbody>
</table>


**DIAGRAM : 1.1**

NUMBER OF LIFE INSURANCE COMPANIES IN PUBLIC AND PRIVATE SECTORS (During the years 2000-01 to 2011-12)

IRDA also allowed foreign participation up to 26 percent in equity shareholding of private insurance companies. As a result many foreign
companies (both in general and life insurance) got themselves registered with IRDA to operate in India. Presently, twenty three life insurance companies are operating in private sector in addition to LIC from public sector making the total to twenty four.

**Growth in Number of Offices of Indian Life Insurers**

LIC is operating through its five tier organizational structure, namely central office, zonal offices, divisional offices, branch offices and satellite offices while private life insurers are operating through two tier organizational structure, namely head office and branch offices. Increase in number of offices shows expansion of life insurance industry.

**TABLE : 1.3**

**NUMBER OF LIFE INSURANCE OFFICES**

(As on 31st March)

<table>
<thead>
<tr>
<th>Year</th>
<th>LIC</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>2186</td>
<td>13</td>
<td>2199</td>
</tr>
<tr>
<td>2001-02</td>
<td>2190</td>
<td>116</td>
<td>2306</td>
</tr>
<tr>
<td>2002-03</td>
<td>2191</td>
<td>254</td>
<td>2445</td>
</tr>
<tr>
<td>2003-04</td>
<td>2196</td>
<td>416</td>
<td>2612</td>
</tr>
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<td>2004-05</td>
<td>2197</td>
<td>804</td>
<td>3001</td>
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<tr>
<td>2005-06</td>
<td>2220</td>
<td>1645</td>
<td>3865</td>
</tr>
<tr>
<td>2006-07</td>
<td>2301</td>
<td>3072</td>
<td>5373</td>
</tr>
<tr>
<td>2007-08</td>
<td>2522</td>
<td>6391</td>
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</tr>
<tr>
<td>2008-09</td>
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<td>11815</td>
</tr>
<tr>
<td>2009-10</td>
<td>3250</td>
<td>8768</td>
<td>12018</td>
</tr>
<tr>
<td>2010-11</td>
<td>3371</td>
<td>8175</td>
<td>11546</td>
</tr>
<tr>
<td>2011-12</td>
<td>3455</td>
<td>7712</td>
<td>11167</td>
</tr>
<tr>
<td>2012-13</td>
<td>3561</td>
<td>8235</td>
<td>11796</td>
</tr>
</tbody>
</table>


The total number of offices of life insurers operating in India increased from 2,199 in 2000-01 to 11,167 in 2011-12, registering a
growth rate of 34 percent during the period under study, while the
number of offices of LIC increased from 2,186 in 2000-01 to 3455 in
2011-12, registering a growth rate of 4.58 percent, the number of offices
of private life insurers increased from 13 in 2000-01 to 7,712 in 2011-12.
It shows that private life insurers expanded their business very fast as
they had 69.06 percent share in total number of offices operating in India
as on 31.3.2012, while LIC expanded at slow speed due to its already
established network throughout the country.\textsuperscript{36}

Within the private life insurers, two insurers namely, Bajaj Allianz
Life Insurance Company Limited and Sahara India Life Insurance
Company Limited grew very fast with a growth rate of more than 300
percent and six insurers grew at a growth rate of more than 100 percent.
Coefficient of variation stood at 36.77 percent for total industry, 122.46
percent for private life insurers and 1.85 percent for LIC which shows
that growth was more consistent in case of LIC and life insurance
industry as a whole as compared to private life insurers.

C. Number of Products and Riders

Marketers try to satisfy their customers by providing the products
which they require. Since customers’ needs vary, a wide variety of
products is generally made available to suit their specific requirements.
Further, the requirements of customers change overtime which

\textsuperscript{36} Annual Report-2011-12, IRDA, Mumbai, p.-112.
necessitates the introduction of new products and deletion of unsuitable products from the product-mix.

Prior to 2000, LIC’s product-mix consisted of products mainly falling in the category of whole life and endowment policies. From time to time, many new products were added and withdrawn, a few of which (e.g. Money Back Policies, Jeevan Mitra Policy etc.) became very popular among the people. LIC also tried to include features like accidental death, disability benefit and premium waiver clauses in many of its policies. However, all these benefits were not available in all type of policies. Further, addition of such benefits added complexities to the product. Moreover, many policies like unit linked policies and term insurance policies were not provided by LIC. After entry of private players in life insurance industry, there has been a big change in the kind of products provided by insurers.

Many products like unit linked plans, single premium plans and pension plans have become quite popular these days. Further, insurers have tried to keep the basic products of life insurance quite simple by providing multiple riders separately which a customer can choose as per his requirements on payment of extra premium, thus making possible for the customer to match the products with his requirements, However, riders cannot be bought separately or independently of a basic policy.

ICICI Prudential Life Insurance Company Limited launched total
91 new products from 2000-01 to 2011. There were five more private life insurers who launched more than 40 new products. It is worth noting that LIC also launched 53 new products.\textsuperscript{37} Thus, after the entry of private insurers flow of new products was very high. Further, many new type of riders have been made available to the public. The main riders available in life insurance industry today include term rider, accidental death benefit, accidental total permanent disability, waiver of premium on death, waiver of premium on disability, critical illness rider, income benefit rider, family income benefit rider etc.

**D. Growth of Life Insurance New Business in India**

With the entry of private insurers in life insurance business, it is obvious that some proportion of new business will go in the hands of private life insurers. An attempt, therefore, has also been made to study the growth of new business in terms of policies and premium income of Indian life insurance industry. Further, the share of private insurers and LIC in total new business has also been studied.

Before the liberalization of insurance sector in India the only one insurance company that offered the life insurance is LIC and enjoyed the monopoly in insurance sector. The private insurance companies came into existence with the enactment of IRDA Act 1999. But, even in the post-liberalisation era LIC enjoyed the major share in terms of first year

premiums and renewal premiums when compared to private sector.

**TABLE : 1.4**

MARKET SHARE OF LIC AND PRIVATE PLAYERS

(\%)

<table>
<thead>
<tr>
<th>Year</th>
<th>LIC</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>99.98</td>
<td>0.02</td>
<td>100.00</td>
</tr>
<tr>
<td>2001-02</td>
<td>99.46</td>
<td>0.54</td>
<td>100.00</td>
</tr>
<tr>
<td>2002-03</td>
<td>97.99</td>
<td>2.01</td>
<td>100.00</td>
</tr>
<tr>
<td>2003-04</td>
<td>95.32</td>
<td>4.68</td>
<td>100.00</td>
</tr>
<tr>
<td>2004-05</td>
<td>90.67</td>
<td>9.33</td>
<td>100.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>85.75</td>
<td>14.25</td>
<td>100.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>81.90</td>
<td>18.10</td>
<td>100.00</td>
</tr>
<tr>
<td>2007-08</td>
<td>74.39</td>
<td>25.61</td>
<td>100.00</td>
</tr>
<tr>
<td>2008-09</td>
<td>70.92</td>
<td>29.08</td>
<td>100.00</td>
</tr>
<tr>
<td>2009-10</td>
<td>70.10</td>
<td>29.90</td>
<td>100.00</td>
</tr>
<tr>
<td>2010-11</td>
<td>69.77</td>
<td>30.23</td>
<td>100.00</td>
</tr>
<tr>
<td>2011-12</td>
<td>70.68</td>
<td>29.32</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Annual Report-2011-12, IRDA, Mumbai, p.- 122.

The market share of private insurers in first year premium was 28.15 per cent in 2011-12 (31.16 percent in 2010-11). The same for LIC was 71.85 per cent (68.84 per cent in 2010-11). Similarly, in renewal premium, LIC continued to have a higher share at 69.91 per cent (70.48 per cent in 2010-11) when compared to 30.09 per cent (29.52 per cent in 2010-11) share of private insurers. On the basis of total premium income, the market share of LIC increased marginally from 69.77 per cent in 2010-11 to 70.68 per cent in 2011-12. Accordingly, the market share of private insurers has gone down marginally from 30.23 per cent in 2010-11 to 29.32 per cent in 2011-12.

**New Policies**

During 2011-12, life insurers issued 442 lakh new policies, out of
which LIC issued 358 lakh policies (80.90 per cent of total policies issued) and the private life insurers issued 84 lakh policies (19.10 per cent). While LIC suffered a decline of 3.47 per cent (4.70 per cent decline in 2010-11) in the number of new policies issued against the previous year, the private sector insurers continued the previous years’ experience of significant decline and reported a dip of 24.04 per cent (22.61 per cent decline in 2010-11) in the number of new policies issued. Overall, the industry witnessed 8.22 per cent decline (9.53 per cent decrease in 2010-11) in the number of new policies issued. Table 1.5 reveals that total new business policies of life insurance industry increased from 197.73 lac in 2000-01 to 441.93 lac in 2011-12.

**TABLE : 1.5**
**NUMBER OF NEW LIFE INSURANCE POLICIES ISSUED**
(In Lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>LIC</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>196.73</td>
<td>1</td>
<td>197.73</td>
</tr>
<tr>
<td>2001-02</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>2002-03</td>
<td>245.46</td>
<td>8.25</td>
<td>253.71</td>
</tr>
<tr>
<td>2003-04</td>
<td>269.68</td>
<td>16.59</td>
<td>286.27</td>
</tr>
<tr>
<td>2004-05</td>
<td>239.78</td>
<td>22.33</td>
<td>262.11</td>
</tr>
<tr>
<td>2005-06</td>
<td>315.91</td>
<td>38.71</td>
<td>354.62</td>
</tr>
<tr>
<td>2006-07</td>
<td>382.29</td>
<td>79.22</td>
<td>461.52</td>
</tr>
<tr>
<td>2007-08</td>
<td>376.13</td>
<td>132.62</td>
<td>508.74</td>
</tr>
<tr>
<td>2008-09</td>
<td>359.13</td>
<td>150.11</td>
<td>509.23</td>
</tr>
<tr>
<td>2009-10</td>
<td>388.63</td>
<td>143.62</td>
<td>532.25</td>
</tr>
<tr>
<td>2010-11</td>
<td>370.38</td>
<td>111.14</td>
<td>481.52</td>
</tr>
<tr>
<td>2011-12</td>
<td>357.51</td>
<td>84.42</td>
<td>441.93</td>
</tr>
</tbody>
</table>

*Source: IRDA Annual Report, 2011-12, 125.*
On the other hand, LIC’s new business policies increased from 196.73 lac in 2002-03 to 376.13 lac in 2007-08, showing a growth rate of just 10.30 percent during the period under study. However, new business policies of private life insurers increased from 1 lac in 2000-01 to 84.42 lac in 2011-12.

**Fresh Business Premium of Public and Private Life Insurance Companies**

Compared to LIC of India, the growth rate of fresh business premium of private life insurance companies was low. Table 1.6 displays the details of fresh business premium collected by public and private life insurance companies from 2000-01 to 2011-12.

**TABLE : 1.6**

FRESH BUSINESS PREMIA RECEIVED BY INDIAN INSURANCE COMPANIES (Rs. in Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>LIC</th>
<th>Growth Rate</th>
<th>Private Sector</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>9,700.98</td>
<td>---</td>
<td>6.45</td>
<td>---</td>
</tr>
<tr>
<td>2001-02</td>
<td>19,588.77</td>
<td>101.93</td>
<td>268.51</td>
<td>4061.70</td>
</tr>
<tr>
<td>2002-03</td>
<td>15,976.76</td>
<td>-18.44</td>
<td>965.69</td>
<td>259.65</td>
</tr>
<tr>
<td>2003-04</td>
<td>17,347.62</td>
<td>8.58</td>
<td>2,440.71</td>
<td>152.74</td>
</tr>
<tr>
<td>2004-05</td>
<td>20,653.06</td>
<td>19.05</td>
<td>5,564.57</td>
<td>127.99</td>
</tr>
<tr>
<td>2005-06</td>
<td>28,515.87</td>
<td>38.07</td>
<td>10,269.67</td>
<td>84.55</td>
</tr>
<tr>
<td>2006-07</td>
<td>56,223.56</td>
<td>97.17</td>
<td>19,425.65</td>
<td>88.84</td>
</tr>
<tr>
<td>2007-08</td>
<td>59,996.57</td>
<td>6.71</td>
<td>33,715.95</td>
<td>73.56</td>
</tr>
<tr>
<td>2008-09</td>
<td>53,179.08</td>
<td>-11.36</td>
<td>34,152.00</td>
<td>1.29</td>
</tr>
<tr>
<td>2009-10</td>
<td>71,521.90</td>
<td>34.49</td>
<td>38,372.12</td>
<td>12.36</td>
</tr>
<tr>
<td>2010-11</td>
<td>87,012.35</td>
<td>21.66</td>
<td>39,385.84</td>
<td>2.64</td>
</tr>
<tr>
<td>2011-12</td>
<td>81,862.25</td>
<td>-5.92</td>
<td>32,079.92</td>
<td>-18.55</td>
</tr>
</tbody>
</table>

**Source:** IRDA Annual Report, 2011-12, 127.
The fresh premium of LIC of India has been increasing year after year. It was Rs. 9,700.98 crore in 2000-01 and had increased to 81.862.25 in 2011-12. But the growth rate of fresh premium of LIC of India shows a fluctuating trend. The growth rate was -18.44 per cent in 2002-03 which increased to 8.58 per cent in 2003-04. There is a persistent boost till 2006-07 and which decreased in 2007-08. Compared to the previous year, it is decreased by 5.92 percent in 2011-12. In private sector also there is a continual increase in the fresh business premium during the years from 2000-01 to 2010-11 but compared with the previous year a decrease of 18.55 percent was registered during the year 2011-12. It was Rs. 6.45 crore in 2000-01 which has increased to Rs. 32,079.92 crore in 2009-10. The rate of growth of private sector also shows the downward trend.

Coefficient of variation stood at 66.37 per cent and 131.59 per cent in terms of premium for LIC and private life insurers respectively.\textsuperscript{38} This shows that growth was more consistent for LIC as compared to private life insurers both in terms of policies and premia.

E. Growth of Premium Income in Indian Life Insurance Industry

Premium income is the second major source of income of life insurance industry. Table 1.6 reveals that total premium earned by life insurance industry increased from Rs. 34,898.47 crore in 2000-01 to Rs. 2,91,605.00 crore in 2011-12, registering a growth rate of 61.30 percent.

\textsuperscript{38} Ibid, 149.
Total premium earned by LIC increased from Rs. 34892.02 crore in 2000-01 to Rs. 2,03,473.40 crore in 2011-12 which showed a growth rate of 40.26 percent during the same period. Similarly, total premia earned by private life insurers increased from Rs. 6.45 crore in 2000-01 to Rs. 88,131.60 crore in 2006-07, registering a very high growth rate. As a result, the share of private life insurers in total premium increased from 0.02 per cent in 2000-01 to 30.22 per cent in 2011-12. Coefficient of variation stood at 43.5 per cent and 131.54 per cent for LIC and private life insurers respectively which shows that growth was more consistent in
case of LIC as compared with the private life insurers.\textsuperscript{39}

As at 31st March, 2012, there were fifty-two insurance companies operating in India; of which twenty four were in the life insurance business and twenty-seven were in non-life insurance business. The life insurance industry recorded a premium income of Rs. 2,87,072 crore during 2011-12 as against Rs. 2,91,639 crore in the financial year 2010-11, registering a negative growth of 1.57 percent. While private sector insurers posted 4.52 per cent decline (11.08 per cent growth in previous year) in their premium income, Life Insurance Corporation (LIC), the fully state owned insurance company, recorded 0.29 percent decline (9.35 per cent growth in previous year), in its total premium underwritten.\textsuperscript{40}

Life insurance has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. Though privatization of the insurance sector is feared to affect the prospects of the LIC, the study shows that the LIC continues to dominate the sector. Private sector insurance companies also tried to increase their market share

**Insurance Information Bureau (IIB):**

Insurance Information Bureau (IIB) was formed in October 2009 with the objective of providing efficient functioning of the insurance sector as well as the protection of the interests of the policyholders by


\textsuperscript{40} Ibid., 154.
providing reliable, timely and accurate information. IIB aims to act as a single point of official reference for the entire insurance industry data and also to ensure that data is available to various shareholders including insurance companies, intermediaries, market players, researchers, policyholders and general public for real time decision making. IIB collects transactional data (Motor, Health, Fire, Marine and Engineering) from all insurers in online mode. IIB publishes periodical reports on Motor, Health and other lines of business. The industry “aggregates” data published by IIB enables companies to set internal benchmarks. In addition to periodical reports, IIB publishes many ad-hoc reports from time to time.\footnote{Annual Report, IRDA, 2011-12, 8.}

**Grievance Redressal:**

The Consumer Affairs Department of IRDA handles policyholder grievances, apart from carrying out awareness campaigns on insurance. The department looks into complaints from policyholders against life and non-life insurance companies. Prospects and policyholders are advised to first file their complaints with the respective insurance companies. If the insurance companies do not attend to the complaints received within the stipulated turnaround time of 15 days or in case the complainants are not satisfied with the resolution, they may escalate the complaints to IRDA. The Authority facilitates the process of resolution by taking up the matter with the insurance companies to strengthen the redressal framework.
IRDA also examines the complaints from a regulatory perspective and takes steps as deemed fit.

The IRDA Grievance Call Centre (IGCC) receives and registers complaints through a toll free number. The IGCC interfaces with the Integrated Grievance Management System (IGMS), the online system for grievance management that not only offers a gateway for complainants to register and track grievances but is also a tool for the Authority to monitor disposal of grievances by insurance companies.

Further, the requirement of insurance companies to have Board approved grievance redressal policies; compliance requirements relating to IRDA guidelines for grievance redressal and the requirement under the corporate governance guidelines to have a policyholder protection committee as a mandatory committee have gone a long way in protecting the interests of policyholders. In addition, the IGMS provides a central repository of complaints across the industry and this facilitates both IRDA as well as the insurance companies to carry out “root-cause” analysis of grievances to identify systemic and policy related issues. This has also enabled the Authority to identify the concerns of policyholders and to initiate corrective action. The Authority is visiting/revisiting areas such as group insurance, tying and bundling insurance with various goods and services, and the need to use plain language in insurance policies.

**Initiatives towards Policyholders Protection:**

With a view to protecting the interests of policyholders, the
Authority has taken a number of initiatives. Guidelines relating to distance marketing have been issued by IRDA which address challenges relating to mis-selling using distance marketing mode, fallout of the advancement in technology. While the benefits of having new and faster channels need to be reaped, the loopholes created by them need plugging and this is precisely what the guidelines are aimed at. IRDA has issued guidelines to agents for ensuring persistency of life insurance policies to ensure that servicing of policies by agents is sustained.

Carrying forward its discussion paper on the proposed Guidelines on Prospect Product Matrix for the Life Insurance industry, the Authority has put up the draft of the guidelines and the inputs received from the stakeholders are under the active examination of the Authority.

IRDA has taken several initiatives to protect the interests of policyholders. Policyholders have the right to expect insurance companies to keep the promises they make. When there is an error of omission or commission not consistent with expected or defined service levels, there is a deficiency, in service which results in giving scope for a grievance. Apart from providing a tool for monitoring disposal of grievances by insurance companies, the Integrated Grievance Management System (IGMS), enables IRDA to monitor market conduct issues and take necessary steps to ensure better protection of policyholders. The Authority has been carrying out a sustained campaign to create awareness about insurance grievance redressal systems, rights
and duties of policyholders, etc., through various media. In an attempt to improve general public’s understanding of insurance which helps them in making informed choices about the use of insurance services, the Authority has launched an exclusive website www.policyholder.gov.in for insurance education.

The user friendly and menu driven website contains information in the simplest possible language about IRDA, buying insurance, making a claim, how to make a complaint under heading of consumer complaint, etc. It also encompasses information about the various initiatives taken by IRDA towards consumer protection, Handbooks on insurance for most common products providing details of coverage offered, frequently asked questions, Policyholder servicing Turn Around Times (TATs), what to do in case of grievance, etc. IRDA is encouraging all insurers and other stakeholders to provide a link to IRDA Policyholder’s education website in their respective website. It is expected that visiting the IRDA’s website may help consumers to be in a better position while purchasing insurance products as per their requirements as well as to understand their rights and responsibilities as consumers of insurance products and services.

Players at Different Starting Positions, None close to the Finish Line

While there is a stark difference in the starting position of players in terms of performance, none are close to achieving an appropriate

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balance between various economic objectives of growth, profitability and franchise quality. Business models adopted by private sector life insurers have been economically unviable, with players struggling to balance the multiple economic objectives. Between fiscal years 2000 and 2011 the total capital invested by private sector life insurers was over USD 7.5 billion, of which over 50 percent or nearly USD 4.0 billion was invested to fund accumulated losses, which have largely been incurred to create distribution capacity.\textsuperscript{43}

None of the private players in the industry can be classified to be in the high performance zone, i.e., with new business economic of less than 25 % and persistency of business higher than 75 %. However, players are at wide ends of the spectrum with new business economics varying between 22 % and 63 % for a top quartile and median player respectively. Similarly, persistency varies from low levels of 50 % to players with better performance demonstrating higher than 75 %.

The wide variation in economic performance is witnessed across distribution elements where agency economic varies between 32 and 91 percent and bancassurance varies between 23 and 66 percent, for a top quartile and median player respectively.\textsuperscript{44} This difference is largely driven by differences in front-line productivity differential. In addition, the source of growth varies with some players having a higher value

\textsuperscript{43} Ibid., 88
\textsuperscript{44} Ibid., 89
customer base, i.e. more than 60 percent of policies sourced being high ticket. The differences in performance are also reflected in operational metrics with high performing players having as much as a 30 percent higher straight-through processing rate of policies around 40 percent higher productivity of underwriters processing rate of policies and around 40 percent higher productivity of underwriters processing the policies.

Even for the best performers, there is still a long way to go in meeting the elusive ‘absolute bar’ in terms of performance. Therefore, players must re-align their business models in the new paradigm with careful consideration of several strategic issues.

**FOREIGN DIRECT INVESTMENT (FDI) IN INSURANCE SECTOR**

The Central Government has proposed to enhance foreign direct investment (FDI) in insurance to 49% in its next wave of reforms announced recently. At present foreign investment in private insurance companies is restricted to 26% of their capital, which is now proposed to be increased to 49% by passing an amendment to the Insurance Act. Announcing this decision, finance minister P Chidambaram said “the benefits of this amendment to the insurance act will go to the private sector insurance companies, which require huge amounts of capital and that capital will be facilitated with the increase in foreign investment to

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49%.

He also clarified that this will not apply to public sector insurers like Life Insurance Corporation of India (LIC) and the five general insurance companies.

At present there are 44 private insurance companies authorized by the Insurance Regulatory and Development Authority (IRDA) operating in the country. These comprise of 23 in life insurance business, 17 in general insurance business and four in health insurance business, since the insurance sector was opened for private sector in the year 2000. These are all joint ventures between the Indian promoters who hold up to 74% and foreign insurance companies who hold up to 26% as mandated by the law.

The insurance business requires additional capital as it grows and this has to come from the promoters. If the Indian promoters are unable to contribute their share of the capital, they will not be able to grow. Foreign companies with deep pockets will be able to fill this gap, if they are allowed to invest up to 49% of the capital. It is estimated that the private insurers need about Rs. 60,000 crore of additional capital during the next five years. Therefore, the raising of FDI cap to 49% will come handy for the foreign partner to increase their stake in the company, without the local partner having to put matching capital in to the company.

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47. Ibid., 72.
TABLE : 1.8
STATUS OF FOREIGN DIRECT INVESTMENT IN INDIAN LIFE INSURANCE COMPANIES AS ON 31-03-2013

<table>
<thead>
<tr>
<th>Insurer</th>
<th>FDI (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aegon Religare</td>
<td>26.00</td>
</tr>
<tr>
<td>Aviva</td>
<td>26.00</td>
</tr>
<tr>
<td>Bajaj Allianz</td>
<td>26.00</td>
</tr>
<tr>
<td>Bharti Axa</td>
<td>22.22</td>
</tr>
<tr>
<td>Birla Sunlife</td>
<td>26.00</td>
</tr>
<tr>
<td>Canara Hsbc</td>
<td>26.00</td>
</tr>
<tr>
<td>DLF Pramerica</td>
<td>26.00</td>
</tr>
<tr>
<td>Edelweiss Tokio</td>
<td>26.00</td>
</tr>
<tr>
<td>Future Generali</td>
<td>25.50</td>
</tr>
<tr>
<td>HDFC Standard</td>
<td>26.00</td>
</tr>
<tr>
<td>ICICI Prudential</td>
<td>25.95</td>
</tr>
<tr>
<td>IDBI Federal</td>
<td>26.00</td>
</tr>
<tr>
<td>Indiafirst</td>
<td>26.00</td>
</tr>
<tr>
<td>Ing Vysya</td>
<td>26.00</td>
</tr>
<tr>
<td>Kotak Mahindra</td>
<td>26.00</td>
</tr>
<tr>
<td>Max Life</td>
<td>26.00</td>
</tr>
<tr>
<td>Metlife</td>
<td>26.00</td>
</tr>
<tr>
<td>Reliance</td>
<td>26.00</td>
</tr>
<tr>
<td>Sahara</td>
<td>0.00</td>
</tr>
<tr>
<td>SBI Life</td>
<td>26.00</td>
</tr>
<tr>
<td>Shriram Life</td>
<td>26.00</td>
</tr>
<tr>
<td>Star Union Dai-Ichi</td>
<td>26.00</td>
</tr>
<tr>
<td>Tata Aia</td>
<td>26.00</td>
</tr>
<tr>
<td>LIC</td>
<td>NIL</td>
</tr>
</tbody>
</table>


The foreign partner will be more than happy to increase its stake, as it will help it get a bigger share of the pie, and will also give it a larger role in running the company according to its ways, by virtue of a higher shareholding in the company. This will, therefore, be a boon to the foreign insurers to come to India in a big way. Moreover, since September 1, 2010 when IRDA regulations on ULIPs kicked-in, the cash
flow for life insurance companies has got further affected.

### FDI in Insurance Sector

<table>
<thead>
<tr>
<th>Private Sector FDI*</th>
<th>(Rs. Cr.)</th>
<th>FDI (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI in Life Insurance</td>
<td>5053.98</td>
<td>24.05</td>
</tr>
<tr>
<td>FDI in Non-Life Insurance</td>
<td>896.33</td>
<td>24.76</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,950.31</strong></td>
<td></td>
</tr>
</tbody>
</table>

To sum up, with 26% FDI cap in the last few years, capital worth Rs. 5,950.30 crore has come into India. While there is a need for additional long term capital, there is an even greater need to increase the commitment of the foreign partners.

### GLOBAL INSURANCE MARKET

As per the World Insurance Report, published by the reinsurance major “Swiss Re”, the global life insurance premium in real term (adjusted for inflation) grew by 2.3 per cent in 2012 to USD 2621 billion after a contraction of 3.3 per cent in 2011 mainly driven by the emerging markets. In advanced market premium grew by 1.8 per cent in 2012 as compared to negative growth of 3 per cent in 2011. Advanced Asian market which includes Japan, Hong Kong, South Korea and Taiwan registered a growth rate of 8.8 per cent. Premium increased by 2.3 per cent in USA. Premium in Western Europe continued to contract but the rate of contraction declined to negative 3.1 per cent in 2012 as compared to negative 9.7 per cent in 2011. Emerging market premium increased by 4.9 per cent in 2012.

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As per the Report, growth in life insurance will remain sluggish in 2013 due to weak economic growth in advanced countries. But the Advanced Asian countries will perform better and there would be steady growth in life insurance in these economies. Emerging market premium growth is expected to accelerate in 2013 supported by India and China.

Global non-life premium in real term (adjusted for inflation) grew by 2.6 percent in 2012 as compared to 1.9 percent in 2011. Premium in advanced markets grew by 1.5 percent in 2012 as against 0.9 percent in 2011. Premium in Advanced Asian market registered a robust growth of 5.8 percent in 2012 mainly supported by South Korea (14 percent) and Hong Kong (8.2 percent). In emerging markets, non-life premium registered a growth of 8.6 percent in 2012 as compared 8.1 percent in 2011.50

As per the Report, outlook for the non-life insurance industry will remain positive. Growth in emerging markets is expected to be strong due to better economic outlook and increasing penetration. The Report also mentioned the global shifts taking place in the insurance market. Over the last fifty years share of premium shifted away from Europe and Anglo-Saxon market to Asian Markets. The share of Europe and Anglo-Saxon market in global premium volume fell from 93 percent in 1962 to 56 percent in 2012. Over the next ten years, this shift is likely to continue.

and by 2023 China is expected to become the second largest insurance market after the USA.\textsuperscript{51}

CONCLUSION

From the above discussion it is evident that life insurance industry expanded tremendously from 2000 onwards in terms of number of offices, number of agents, new business policies, premia income etc. Further, many new products (like ULIPs, pension plans etc.) and riders were provided by the life insurers to suit the requirements of various customers. However, the new business of such companies was more skewed in favor of selected states and union territories. Most of life insurance business is underwritten in the last four months of any financial year. Private life insurers used the new business channels of marketing to a great extent when compared with LIC. Investment pattern of LIC and private insurers also showed some differences. Solvency ratio of private life insurers was much better than LIC in spite of big losses suffered by them. Lapsation ratio of private insurers was higher than LIC and servicing of death claims was better in case of LIC as compared to private life insurers.

The Central Government has proposed to enhance foreign direct investment (FDI) in insurance sector to 49\% in its next wave of reforms announced recently. At present foreign investment in private insurance

\textsuperscript{51}. Annual Report-2012-13, IRDA, Mumbai, 13.
companies is restricted to 26% of their capital, which is now proposed to be increased to 49% by passing an amendment to the Insurance Act. If the Indian promoters are unable to contribute their share of the capital, they will not be able to grow. Foreign companies with deep pockets will be able to fill this gap, if they are allowed to invest up to 49% of the capital. It is estimated that the private insurers need about Rs. 60,000 crore of additional capital during the next five years. Therefore, the raising of FDI cap to 49% will come handy for the foreign partner to increase their stake in the company, without the local partner having to put matching capital in to the company.

With 26% FDI cap in the last few years, capital worth Rs. 5,950.30 crore has come into India. While there is a need for additional long term capital, there is an even greater need to increase the commitment of the foreign partners.