Life Insurance industry in India

- a paradigm shift

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Abstract

The insurance market in India is currently in the throes of radical change. Close to 80 percent of Indians do not hold an insurance policy, according to a recent survey. Agricultural and rural areas remain largely untouched. But changing government policies and an influx of private and foreign players means the industry is on the brink of a boom. Strong competition and innovative products is what defines India's still small but rapidly growing insurance sector today. The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. 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.

The contours of insurance business have been changing across the globe and the rippling effects of the same can be observed in the domestic markets also. Insurers are increasingly introducing innovative products to meet the specific needs of the prospective policyholders. Innovations have come not only in the form of benefits attached to the products, but also in delivery mechanisms which have emanated from various marketing tie-ups both within the realm of financial services and outside. All these have taken life insurance closer to the customers well as making it more relevant.

Introduction

The insurance market in India is currently in the throes of radical change. Close to 80 percent of Indians do not hold an insurance policy, according to a recent survey. Agricultural and rural areas remain largely untouched. But changing government policies and an influx of private and foreign players means the industry is on the brink of a boom. Strong competition and innovative products is what defines India's still small but rapidly growing insurance sector today. In 1999, when insurance in India was first opened up to private participation and foreign direct investment there were just 5 players. Today there are some 28, with more looking to make inroads. Forecasts say the sector is poised to grow 500 percent over the next three years to become a US$60 billion industry by 2010. For the global insurance majors, the strategy is educating the consumer on insurance and investment needs and opening up new markets.

There is so much potential in the urban areas where even if people have bought life insurance in the past, they have bought it more as a tax planning tool and they haven't adequately insured themselves. And in the rural area more could be done to promote life insurance as a saving instrument or even as a protection and long term wealth creation instrument. Agriculture is perhaps the most untapped area of all. The uncertainties there - extreme rains to

We make a living by what we get, we make a life by what we give - Winston Churchill

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drought - put it high on the insurance-need index. The Indian government has set aside US$100 million for weather-based crop insurance this year. It is also urging insurers to move into rural areas.

When the horizon is going to broaden, the insurance company has to shift from cities to small towns and to the village. So various insurances which have been defined for this segment will go up, which we feel is a good business, profitable business. Non-life insurance is big business already in India's cities - home, personal accident, health and motor insurance segments have made a mark among city dwellers, with intense competition among players for a slice of the pie. Opening up further into unexplored areas is the way ahead.

The benchmark insurance density figure, a ratio of premium paid to total population is a mere 16.4 percent in India, compared to the global average of 496.6 percent. That speaks of the possibilities ahead. Till date, only 20% of the total insurable population of India is covered under various life insurance schemes, the penetration rates of health and other non-life insurances in India is also well below the international level. These facts indicate the immense growth potential of the insurance sector.

Growth of Insurance industry:

India's insurance industry is yet another example of the positive effects of competition and new investors in the market place. As we know, India opened its insurance market to the private sector in 1999 when parliament passed a new law establishing an independent regulatory body to oversee the insurance market. The law opened the door for participation of private insurance companies and a limited participation of foreign insurance companies through joint ventures with Indian companies. The law also charged insurance companies to make available insurance products and services to the huge segment of the population that are vulnerable and not necessarily part of the formal economy.

The results of the liberalization are there for everyone to see. The insurance markets - both life and non-life - have grown impressively. IRDA is working on a regulatory framework that helps level the playing field for all types of insurance companies, irrespective of their ownership. Since 1999, IRDA has licensed 22 new private Indian insurance companies, an overwhelming number of which have global insurance companies as their partners.

In other countries, this kind of capital mobilization provides crucial resources for investment in infrastructure, corporate businesses, long-term bonds, and municipal projects. Once India does more to free insurance companies to invest in such important sectors, it too can gain benefit from this long-term financial resource. Other improvements are occurring as well.

New insurance products such as product liability insurance, professional liability insurance, small/medium size enterprise insurance, weather insurance, and group health insurance for the poor have been launched. Private insurance companies are also using banks, microfinance institutions and cooperatives to increase their market share and compete with well-entrenched state-owned insurance companies.

Along with China, India is seen as one of the few remaining growth markets in the world. It is now the fourth largest economy, but compared to more established insurance markets, insurance penetration in India remains low. Foreign insurers are now tapping into this potential because their home markets have reached close to saturation levels. Another important factor is the economics of the insurance market, which enables the spreading of risk in a country that is relatively stable geographically and politically.

Innovative products, smart marketing, and aggressive distribution have enabled fledgling private insurance companies to sign up Indian customers faster than anyone expected. Indians, who had always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative products on offer.

Performance of Life insurance in the first half of 2006-07 .

The life insurers underwrote a premium of Rs.29664.64 crore during the six months in the financial year as against Rs.11323.13 crore in the comparable period of last year recording a growth of 161.98 percent. Of the total premium underwritten, LIC accounted for Rs.23435.08 crore and the private insurers for Rs.6229.56 crore. The premium underwritten by the LIC and the new insurers grew by

Live as if you were to die tomorrow. Learn as if you were to live forever - Gandhiji

178.69 percent and 113.78 percent respectively, over the corresponding period in the previous year. The number of policies written at the industry level increased by 12.63 percent. As against this increase, the number of policies written by LIC increased by 2.14 percent whereas in the case of private insurers the increase was 91.92 percent. Of the total premium underwritten, individual premium accounted for Rs.25637.42 crore (growth of 160.29 percent) and the remaining Rs.4027.22 crore from the group business (growth of 173.27 percent). In respect of LIC, the growth in individual and group business was 177.86 percent and 183.71 percent respectively.

In the case of private insurers, the individual and group business increased by 111.94 percent and 130.44 percent respectively. The market share of LIC was 79 percent in premium collection and 80.09 percent in number of policies underwritten. In the corresponding period of last year these shares were 74.26 percent and 88.32 percent respectively.

The number of lives covered by life insurers under the group scheme was 87.34 lakh recording a growth of 108.62 percent over the previous period. Of the total lives covered under the group scheme, LIC accounted for 63.97 lakhs and private insurers 4.03 lakhs. The life insurers covered 38.97 lakh lives in the social sector with a premium of Rs.69.75 crore. In the rural sector the insurers underwrote 21.92 lakhs policies with a premium of Rs.2271.31 crore. At the beginning of 2007, there were 18 registered life insurance companies in India, with one public sector Company and 16 private insurers.

Table - 1
Life Insurance Companies Operating in India

Public sector	Private sector
1. Life Insurance Corporation of India	1. Bajaj Allianz Life Insurance Co. Ltd.
	2. Birla Sun Life Insurance Co. Ltd.
	3. HDFC Standard Life Insurance Co. Ltd.
	4. ICICI Prudential Life Insurance Co. Ltd.
	5. ING Vysya Life Insurance Co. Ltd.
	6. Max New York Life Insurance Co. Ltd.
	7. MetLife India Insurance Co. Pvt. Ltd.
	8 Kotak Mahindra Old Mutual Life Insurance Co. Ltd.
	9. SBI Life Insurance Co. Ltd.
	10. TATA AIG Life Insurance Co. Ltd.
	11. Reliance Life Insurance Company Ltd.
	12. Aviva Life Insurance Co. Pvt. Ltd.
	13. Sahara India Life Insurance Co. Ltd.
	14. Shriram Life Insurance Co. Ltd.
	15. Bharti AXA Life Insurance Company Ltd.
	16. Future Generali

Appraisal of insurance market

The contours of insurance business have been changing across the globe and the rippling effects of the same can be observed in the domestic markets also. Insurers are increasingly introducing innovative products to meet the specific needs of the prospective policyholders. An evolving insurance sector is of vital importance for economic growth. While encouraging savings habit it also provides a safety net to both enterprises and individuals.

The insurance industry also provides crucial financial intermediary services, transferring funds from the insured to capital investment, critical but continued economic expansion and growth, simultaneously generating long-term funds for infrastructure development. In fact infrastructure investments are ideal for asset-liability matching for life insurance companies given their long term liability profile. According to preliminary estimates published by the Reserve Bank of India, contribution of insurance funds to financial savings was 14.2 percent in 2005-06, viz., 2.4 percent of the GDP at current market prices. Development of the insurance sector is thus necessary to support continued economic transformation. Social security and pension reforms too benefit from a mature insurance industry.

Innovations in the products

Growth in insurance industry has been spurred by product innovation, sales and distribution channels being put in place by the industry coupled with targeted advertising and marketing campaigns launched by them. Innovations have come not only in the form of benefits attached to the products, but also in delivery mechanisms which have emanated from various marketing tie-ups both within the realm of financial services and outside.

All these have taken life insurance closer to the customers as well as making it more relevant. The insurance companies are increasingly tapping the semi-urban

It is not length of life, but depth of life - Ralph Waldo Emerson and rural areas to take across the message of protection of life through insurance cover. Introduction of unit-linked insurance plans (ULIPs) has been possibly, the single-largest innovation in the field of life insurance.

The design of the product addresses and overcomes several concerns that customers have had in the past like liquidity, flexibility and transparency. ULIPs are differently structured products and give choices to the policyholder. With the ULIP guidelines in place, there has been an enhanced up front transparency on the charges and associated risks. Fund-wise Net Asset Values (NAVs) and portfolio allocations are disclosed on a regular basis.

One of the most significant outcomes of the enhanced competition has been the reduction in the rates for pure protection plans. Over 6 years, the rates have been regularly revised downwards, and are significantly lower than those prevailing prior to opening up of the sector. The life insurance market has become competitive to benefit the policyholders. Simultaneously, industry has been constantly evolving and improving upon its underwriting and risk management abilities.

The reduction of term rates facilitated increasing level of sum assured for policies. This higher level of protection is also evidence that customers are more conscious of the need for risk mitigation and greater security particularly for their homes and child's future. However, given the level of sum assured in the developed countries and other emerging economies, there is a tremendous scope to tap the need for additional cover even amongst the insured population.

Life insurance companies have also been quick to recognize the huge need for structured retirement plans and have leveraged their abilities for long-term fund management towards building this segment. Pension is recognized as one of the greatest needs and growth opportunities in the country, and forms a significant part of portfolio of life insurers. More recently, private life insurers have leveraged their expertise in long-term mortality and morbidity to introduce annuities.

This year has seen the launch of India's first insurance cover specifically for cancer as well as the most recent, globally acknowledged Diabetes Care, critical illness product that covers the pre-existing condition of diabetes which affects one out of every 8 Indians. A special mention for the product is noteworthy, because of its unique approach of marrying financial protection with a preventive risk management approach.

The growth in the group insurance business post liberalization has also been impressive. The superannuation and gratuity business has grown on the strength of professional fund-management and a host of value-added services. Given the scope for growth and innovation, the life insurance sector has tremendous scope for growth, and the industry is expected to maintain the momentum of new premium underwritten over the last two years.

Profits of the life insurers

Life insurance industry is capital intensive, and insurers are required to inject capital at frequent intervals to achieve growth in premium income. Given the high rate of commissions payable in the first year, expenses towards setting up operations, training costs incurred towards developing the agency force, creating a niche for its products, achieving reasonable levels of persistency, providing for policy liabilities, and maintaining the solvency margin, make it difficult for the insurers to earn profits in the initial five to seven years of their operations.

SBI Life Insurance Company is the first private sector company to turnaround with net profit of Rs.2.03 crore in 2005-06. Bancassurance continued to be the company's key distribution channel and contributed over 43 percent of the premium underwritten by the insurer. The company has succeeded in achieving an early break even on account of its lower cost of operations. However, the insurer still continues to report a deficit in the Revenue A/c.

Shriram Life, which commenced operations in February, 2006, too reported net profit of Rs.2.56 crore mainly due to investment income on shareholders' funds and yet to commit funds towards various capital and revenue expenditure. All the private insurance companies reported deficit in their Revenue Accounts in 2005-06 which needed injection of further capital by the shareholders, (Statement....) Other than Sahara and Shriram, all the private insurers made capital calls during the year. Metlife could not complete the process of allotment of shares by 31st March. The total losses of the private insurers as on 31st March 2006 stood at Rs 3,790.81 crore against Rs. 2,590.32 Crore on 31st March, 2005, i.e., an increase of 46.34 percent over the previous year. The continued financial

We all have big changes in our lives that are more or less a second chance - Harrison Ford support through equity injections reflected the promoters' commitment in stabilizing the insurer's operations. During 2005-06 insurers continued to declare bonus despite reporting deficit in the Revenue Account.

It may be recalled that in 2003-04, recognizing the need of the new insurers to declare bonuses to maintain their competitive stance in the market, the Authority had permitted declaration of bonus despite non-availability of actuarial surplus subject to compliance with the conditions imposed by the Authority. LIC, continued to report surplus of Rs.12,733 crore from operations as against Rs.15884.26 crore in 2004-05, of which Rs.621.77 crore was transferred to the Government of India. (Rs.696.60 crore in 2004-05) in tune with the provisions of Section 28 of the LIC Act, 1956.

Comparison with China and other countries

Currently India and China are the most lucrative insurance markets in the world. India and China constitute the home of half of the population of the world and their recent rapid economic development makes them attractive for foreign investment. Though India's economic development is not as rapid as China's, it enjoys comparative strength in the socio-political front. India is the world's largest democracy and democracy is deep-rooted in its social and political institutions.

The executive and the judiciary system are the continuation of British legacy, which ruled India for 200 years. English, the unofficial language of correspondence and instruction, is well spoken by the educated. Another strength is its abundant highly educated skilled workforce. India's stride in the fields of software and logical ability is well known in the world. The savings rate is quite high in US standards. All this makes India an attractive destination of US insurance companies.

The annual growth in the average insurance premium in India has been 8.2 percent compared with the global average pf 3-4 percent. Insurance density in the country, based on per capita premium, was $5 in he life insurance segment and $2 in the general segment. Compared with the Indian life insurance standard, insurance density stood at $3,236 in Japan, $1,079 in the US, $18 in Brazil and $14 in Mexico.

The share of life insurance premium to GDP was 1.29 percent in India, which is abysmal in the global standard. Despite these opportunities, however, there is also a rough ride ahead for the new players in India. This is because, unlike in the West, insurance is sold more as an instrument of savings in India than as a product offering protection and security.

LIC's 1996 insurance survey reveals that more than 40 percent of insurance-buyers look at insurance products as a means of savings. Risk coverage is only a secondary objective. Nearly 26 percent of the insurance policies sold are on considerations of old age security. Only 18 percent of insurance policies are sold on death risk considerations.

Future of Life insurance industry in India:

The Indian life insurance industry will continue to focus on growth by tapping new geographical areas. Insurers will also introduce innovative products to reach wider segments. They will have to ensure that customers get the right kind of information and the solution offered meets the real needs.

The life insurance industry is in its infancy here and it will take some time before any consolidation becomes a consideration. The focus of all players is geared towards growth in an under-insured market. But ultimately, as in other types of businesses, the survivors will be the ones who will be able to build a sustainable business.

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You're happiest while you're making the greatest contribution - Robert F. Kennedy