

Private Players and Life Insurance Industry

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INTRODUCTION

Service marketing is a very sensitive aspect and that too marketing of financial services is really delicate. There has been a sea change in this area across the world during the last few years due to globalization, deregulation and technological advancements that are changing market scenario for financial services industry including insurance sector. The life insurance industry in India has witnessed a tremendous change during these years in terms of product offerings, customer service, risk management, fund options and others. The decision of the Govt. of India to deregulate the insurance industry has led to the entry of private and foreign players and ending the age long monopoly enjoyed by LIC industry. It is one of the fastest growing industries in the country. Private players have captured a sizeable chunk of the market in these five years.

LIFE INSURANCE IN INDIA: THE STORY SO FAR

Life insurance in India can be traced back to the Vedas. A form of community insurance was prevalent around 1000 BC and was practiced by the Aryans. Some burial societies were found in the Buddhist period to help families build houses, protect widows and children. Life insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first life insurance company on Indian soil. Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870. The Swadeshi movement of 1905-07 gave rise to more insurance companies. During the early 20th century, the insurance witnessed a big boom in India with several more companies being set up. As these companies grew, the government began to exercise control on them. The Insurance Act was passed in 1912, followed by a detailed and amended Insurance Act of 1938 that looked into investments, expenditure and management of these companies' funds. By the mid 1950s, there were around 170 insurance companies and 80 provident fund societies in the country's life insurance scene. However, in the absence of regulatory systems, scams and irregularities were almost a way of life at most of these companies. As a result, the government decided to nationalize the life assurance business in India. The Life Insurance Corporation of India was set up in the year 1956 to take around 250 life companies.

Some of the Important Milestones In the Life Insurance Business are:

1818 : Oriental Life Insurance Company, the first life insurance company in India, started functioning.

1870: Bombay Mutual Life Assurance Society started its business.

1912 : The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938: Earlier legislation consolidated and amended by the insurance Act with the objective of protecting the interests of the insuring public.

1956: LIC was formed by an Act of Parliament viz; LIC Act, 1956, with a capital contribution of Rs. 5 crores from the Government of India.

Since the nationalization of Insurance industry in the year 1956, LIC was the only player who enjoyed monopoly over the insurance industry. Reform process initiated by the Govt. of India led to the deregulation of insurance sector. In April 1993, a High Powered Committee was set up under the chairmanship of R.N. Malhotra, former Governor of RBI to examine the structure of insurance industry and recommend changes to make it more efficient and competitive. On the recommendations of Malhotra Committee, IRDA Act was passed in Dec. 1999, which led to the ending of Govt. monopoly and lifting all entry restrictions for private and foreign players to enter the market. The three main reasons for opening up the life insurance sector were: ✓ Funding infrastructure ✓ Increasing insurance penetration ✓ Increasing the spread of insurance in rural areas.

Till date, 15 private companies have entered the life insurance sector in India. Out of these, only one, Sahara India Life Insurance Co. Ltd. is the wholly and purely an Indian company without any foreign collaboration. All the other

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companies are having foreign direct investment up to 26%, which is the maximum limit fixed by IRDA. Foreign companies are still demanding an increase in the FDI limit to the extent of 49%.

MARKET SHARE OF PRIVATE PLAYERS

The opening up of the insurance sector and the consequent entry of private players has resulted in a tremendous growth in the life insurance industry. The private players are giving a stiff competition to the LIC, thereby resulting in the declining market share of LIC. Table 2 highlights the first year premium income of LIC and private insurers and their respective market share from the year 2001-02 to 2005-06. The first year premium income is an indicator of the new business secured by the life insurance companies. The following charts highlight that the market share of private insurers is showing an increasing trend whereas the market share of LIC is showing a declining trend. The market share of private players has jumped to 28.56% in the year 2005-06 from a mere 1.35% in the year 2001-02. This has resulted in the decline in the market share of LIC to 71.44% in the year 2005-06 from 98.65% in the year 2001-02. From Table 2 we can conclude that the first year premium income of life insurance industry has increased from Rs. 19857.28 crores in 2001-02 to 35897.95 crores in 2005-06, showing a tremendous growth in this sector. First year premium income is an indicator of new business secured by the life insurance industry. The share of private players has shown a significant increase. ICICI Prudential Life Insurance Co. Ltd. and Bajaj Allianz Life Insurance Co. Ltd. are the leading private players with their respective market shares of 7.35% and 7.56% respectively.

Since its entry in the insurance sector, ICICI Prudential Life Insurance Co. has enjoyed the top rank amongst the private players. Today the company has one of the widest distribution networks with 153 branches in 110 locations spread across the country. It has the highest equity base among the private life insurers. After a sedate existence for a few years the Bajaj Allianz Co. suddenly started jumping ranks and is showing the highest premium income in the year 2005-06. The market share of the company has sharply risen to 7.56% in the year 2005-06 as compared to 0.36% in 2001-02.

WINNING STRATEGIES OF PRIVATE PLAYERS

The rising market share of private players is a true reflection of the impact they have made. The new players have set very high standards of customer care and responsiveness. They are developing new products and introducing innovative marketing methods. The present strategy of these companies is to initially capture the established market and serve the insurance needs of the affluent segment. Earlier customers, who have always seen life insurance as a tax saving device are now suddenly turning to snapping up the new innovative products offered by the private insurers. Following are the winning strategies of private insurers, which have enabled them to grab the Indian customers.

- ❖ Introduction of innovative products particularly the unit-linked products.
- ❖ Availability of riders, particularly term riders, health riders.
- ❖ Smart marketing.
- ❖ Aggressive distribution i.e. distribution through bank channels, affinity groups, direct marketing through telesales and Internet.
- ❖ Customer education and transparency.
- ❖ Increased penetration in rural areas through rural networks i.e. NGOs and SHGs.
- ❖ Micro insurance.
- ❖ Attending to customers' complaints.
- ❖ Simplified claims process and reducing the turnaround period.
- ❖ Wider choice to customers.

CONCLUSION

Five years is too short a period to come to clear conclusions, but the trend is positive. The last five years have seen a tremendous growth in the insurance industry. The opening up of the sector to private players has posed a challenge to the public sector giant LIC. Though it still enjoys the dominant position, but the proportionate share is decreasing year after year. On the other hand, private players with their innovative products, smart marketing, wider distribution networks and better customer service have been successful in attracting a large number of customers. The order of the day is either perform or perish. The success of the insurers will depend upon meeting the rising expectations of the customers who are the real kings. In order to satisfy and retain the customers, LIC has to strive hard and get ready to compete with private players.

Table 1 : Showing the Year-wise Entry of Private Players

Year 2000-01				
Sr. No.	Date of Registration	Name of the Company	Indian Partner	Foreign Partner
1.	23-10-2000	HDFC Standard Life Insurance Company Ltd.	HDFC	Standard Life (UK)
2.	15-11-2000	Max New York Life Insurance Co. Ltd.	Max India Ltd.	New York Life (USA)
3.	24-11-2000	ICICI Prudential Life Insurance Co. Ltd.	ICICI	Prudential Plc. (UK)
4.	10-1-2001	Kotak Mahindra Old Mutual Life Insurance Ltd.	Kotak Mahindra Bank Ltd.	Old Mutual Plc. (UK)
5.	31-1-2001	Birla Sun Life Insurance Co. Ltd.	Aditya Birla Group	Sun Life Financial Services (Canada)
6.	12-2-2001	Tata AIG Life Insurance Co. Ltd.	Tata Group	American International Group (USA)
7.	30-3-2001	SBI Life Insurance Co. Ltd.	State Bank of India	Cardiff S.A (France)
Year 2001-02				
8.	2-8-2001	ING Vysya Life Insurance Co. Pvt. Ltd.	Vysya Bank, GMR Technologies & Industries Ltd.	ING Group (Netherlands)
9.	3-8-2001	Bajaj Allianz Life Insurance Co. Ltd.	Bajaj Auto Ltd.	Allianz AG (Germany)
10.	6-8-2001	Met Life India Insurance Co. Pvt. Ltd.	J&K Bank M Pallongi & Co. Pvt. Ltd.	Met Life International Holdings Inc. (USA)
11.	3-1-2002	AMP Sanmar LIFE Insurance Co. Ltd.*	Sanmar Group	AMP Ltd. (Australia)
Year 2002-03				
12.	14-5-2002	Aviva Life Insurance Co. India Pvt. Ltd.	Dabur India Ltd.	CGU, a subsidiary of Aviva Plc. (UK)
Year 2003-04				
13.	6-2-2004	Sahara India Insurance Co. Ltd.	First wholly and purely an Indian company without any foreign collaboration.	-
Year 2004-05				
14.	17-11-2005	Shriram Life Insurance Co. Ltd.	Shriram Group	Sanlam Group (South Africa)
Year 2005-06				
15.	13-12-2006	Bharati AXA Life Insurance Co. Ltd.	Bharati Group	AXA (France)

*Consequent to the acquisition of entire equity capital of AMP Australia and Sanmar Group in AMP Sanmar Life Insurance Co. Ltd. by Reliance Capital Ltd., the name of the company has changed from AMP Sanmar Life Insurance Co. Ltd. to Reliance Life Insurance Co. Ltd. w.e.f. 17-1-2006.

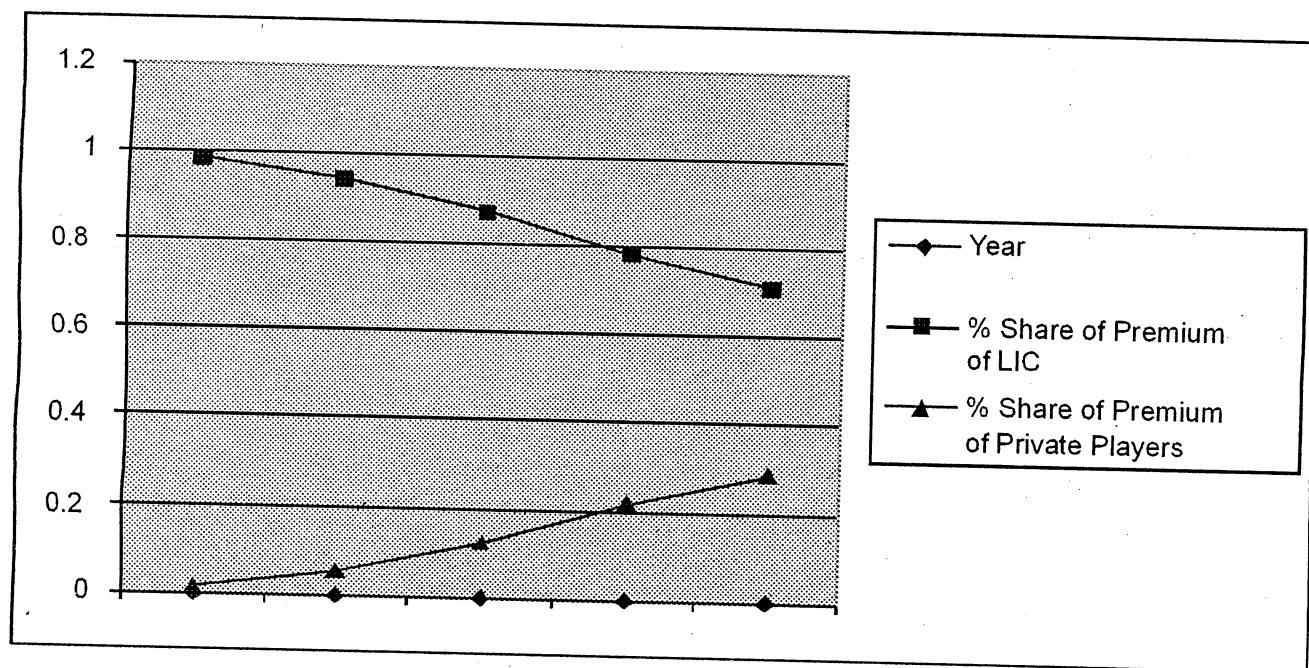


Chart 1 (showing trend of 1st year premium income from 2001-02 to 2005-06)

Table 2: Market Share of Private Players and LIC (First Year Premium Income Of Private Insurers And LIC -Rs. In crores)

Sr. No.	Name of Insurers	2001-02	2002-03	2003-04	2004-05	2005-06
1.	HDFC Standard Life Insurance Co. Ltd.	32.78 (0.17)	129.31 (0.76)	209.33 (1.08)	486.15 (1.93)	1028.94 (2.87)
2.	Max New York Life Insurance Co. Ltd.	38.81 (0.19)	67.71 (0.40)	137.29 (0.71)	224.69 (0.89)	443.27 (1.23)
3.	ICICI Prudential Life Insurance Co. Ltd.	113.33 (0.57)	364.1 (2.15)	750.85 (3.86)	1584.08 (6.27)	2637.48 (7.35)
4.	Kotak Mahindra Old Mutual Life Insurance Co. Ltd.	7.58 (0.04)	35.21 (0.21)	125.52 (0.65)	374.75 (1.48)	397.54 (1.11)
5.	Birla Sun life Insurance Co. Ltd.	28.11 (0.14)	129.56 (0.77)	449.86 (2.32)	621.28 (2.46)	678.1 (1.89)
6.	Tata AIG Life Insurance Co. Ltd.	21.94 (0.11)	52.21 (0.31)	181.59 (0.93)	300.22 (1.19)	463.48 (1.29)
7.	SBI Life Insurance Co. Ltd.	14.69 (0.07)	71.88 (0.42)	207.05 (1.07)	482.94 (1.91)	828.51 (2.31)
8.	ING Vysya Life Insurance Co. Pvt. Ltd.	4.19 (0.02)	17.66 (0.10)	72.1 (0.37)	281.62 (1.12)	284.08 (0.79)
9.	Bajaj Allianz Life Insurance Co. Ltd.	7.14 (0.04)	44.08 (0.26)	179.55 (0.92)	860.02 (3.41)	2715.62 (7.56)
10.	Met Life India Insurance Co. Pvt. Ltd.	0.48 (0.002)	7.7 (0.05)	23.42 (0.12)	56.04 (0.22)	142.63 (0.4)
11.	AMP Sanmar Life Insurance Co. Ltd.	0.28 (0.001)	6.32 (0.04)	27.21 (0.14)	91.18 (0.36)	193.44 (0.54)
12.	Aviva Life Insurance Co. India Pvt. Ltd.	-	13.46 (0.08)	76.96 (0.4)	192.29 (0.76)	407.54 (1.14)
13.	Sahara India Insurance Co. Ltd.	-	-	-	1.67 (0.006)	21.82 (0.06)
14.	Shri Ram Life Insurance Co. Ltd.	-	-	-	-	10.31 (0.03)
	PRIVATE TOTAL	268.51 (1.35)	958.13 (5.66)	2440.7 (12.56)	5456.94 (21.62)	10252.8 (28.56)
	LIC	19588.8 (98.65)	15976.8 (94.34)	16989.3 (87.44)	19785.9 (78.38)	25645.2 (71.44)
	GRAND TOTAL	19857.28	16934.89	19430.00	25242.88	35897.95

♦ Figures in parenthesis show percentage market share of Insurers in terms of first year premium income.

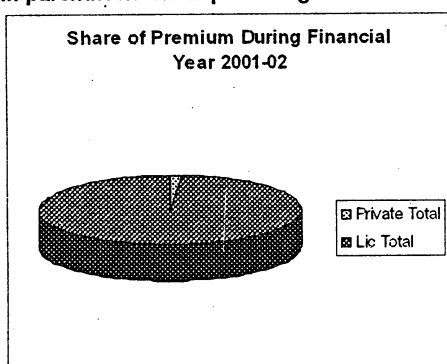


Chart 2

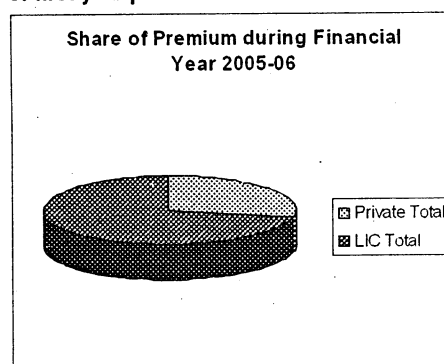


Chart 3

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