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Role of Private Life Insurance Companies in the Development of Life Insurance Sector in India

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Abstract: The purpose of this study is to gain a better understanding of the life insurance market in India and to identify potential problems in this market. One of the most significant changes in the global economy over the last decade has been the tremendous rise of India's GDP. During the early 1990s, India's economy began to open up, allowing it to take advantage of its economic potential and enhance the standard of living for its citizens. One of the financial changes that the government sought to pursue as part of the structural reforms and stabilisation process of the economy was the opening of the financial sector. It's critical that insurance is involved in this procedure. The industry was opened up to private investors by the government. As a result, a number of private insurance companies were formed. A study of the life insurance industry in India in the post-liberalization era has been undertaken at this time. The insurance industry's financial performance in the post-liberalization era, including its market share and growth, has been examined in this study.

Keywords: Insurance,Insurance Density, Insurance penetration, private life insurance Development, India.

Introduction:

In recent years, India has been ranked as one of the world's most successful countries. For the past three years, India's economic growth rate has above 9%. In the same time period, industrial output increased by 10.63 percent, accounting for 29% of GDP, while agricultural output increased by 17%. Since the country's independence, India has remained committed to a socialistic and mixed economy [1]. Several initiatives have been recommended by the International Monetary Fund and the World Bank to be eligible for aid in the wake of the financial crisis [2]. There was agreement from the government to gradually transition to LPG use. One of the financial changes that the government sought to pursue as part of the structural reforms and stabilisation process of the economy was the opening of the financial sector. This alteration in the country's economic structure occurred even though the adoption of LPG was gradual and continuous. It wasn't just the financial sector that had to undergo change. Consequently, a study explores the effects of insurance and banking is a relevant occurrence. The purpose of this research is to examine the impact of the life insurance industry on Indian society [3].

As of 2000, the private sector life insurance companies have made remarkable progress in terms of market share and contribution. The number of branches of private sector life insurance companies grew from 13 to 8,768 between 2001 and 2010 [4]. The primary goal of private life insurance firms was to spread and reach the general public. Each insurance company has a different strategy to cover the country's various regions. They are more flexible and competitive in terms of services than the public sector insurers. Over this time period, there were a significant number of life insurance offices opened. On the Indian economy's mixed-economics foundation, the public sector holds a monopoly position in the life insurance industry [5]. A large portion of the life insurance industry's success can be attributed to the efforts of private investors. Competition from the LIC has also shocked them.

Review of Literature:

According to Inderjit Singh et al. (2009), the privatisation of the Indian Insurance Sector is examined in their book on "Insurance and Risk Management." Management of risk-based capital is explored in detail. There is no indication that the nationalised insurance industry has failed to meet its obligations to insurers or the government, according to Chandra Sekhar, C.P. (2009) in his paper "Learning Nothing, Forgetting Everything [6]." Aside than providing the government with access to a vast amount of capital, the LIC also addressed the issue of insurance for those who couldn't otherwise afford it. According to Basavanthappa, C. and RajanalkarLaxman (2009), "Performance of Life Insurance Companies: A Comparative Study," private insurance companies have made a significant impact over the years. In the Indian life insurance market, these firms have a lot of potential. To meet the wide range of consumer demands, businesses must develop new items that are both useful and innovative. To everyone's benefit, there should be a healthy competition in this industry.

Krishna In his book "Principles and Practice of Life Insurance," Swami, G. (2009) outlines the history of insurance, its benefits, and its role in the economy and society. There includes extensive discussion of life insurance products and ideas such as premium, investment management and the solvency margin. Many changes have occurred since the insurance business was opened up, according to Murthy et al (2009) in their work on "Performance Evaluation of LIC: Ways of Winning Confidence" [7]. The insurance industry's outlook has shifted dramatically since liberalisation. The number of private players and their cutting-edge products are also appealing to every social group. As a result of the healthy competition, insurance density and penetration levels have increased to meet the needs of customers [8]. In their essay on "Prospects of Bancassurance in India," SumninderKaurBawa and SubashChander (2009) argue that the complete banking network serves the needs of people in all economic sectors and across a wide range of geographical regions. As a result, banks can transform the distribution of insurance. As a result, bancassurance has the potential to catalyse the expansion of insurance services in this vast, undeveloped region [9]. "Life Insurance Principles and Practice" by Mishra and Kumar (2009) is a comprehensive guide to the origins of insurance, life insurances, policy conditions, underwriting pricing policies, policy servicing and policy benefit payments in a clear and analytical manner so a layman can understand the subject matter without any ambiguity.

Statement of the Problem:

How far an activity or operation has proceeded can be determined by conducting an evaluation. Life insurance companies in India's insurance market have a greater need to focus on their goals in a more liberalised environment. These are the most significant goals: educating the general public, expanding insurance penetration, and fulfilling rural and social commitments. Financial, technological, product-quality, human, and customer-service aspects all play a role in driving the insurance industry's expansion and success. Exogenous factors such as government regulations, the IRDA, rivalry between public and private sector insurance businesses, and other economic conditions all have an impact on the operations of insurance companies. These are key obstacles to the efficient operation of the players. The insurance businesses are engaged in a wide range of business endeavours. Any assessment of their performance must consider all of the tasks and responsibilities they have to deal with. With this context, an examination of the performance of the public sector Life Insurance Corporation of India and the private sector 22 businesses operating in the Indian life insurance market is critical and vital. A decade-long study of these factors across public and private sector insurance organisations could help the managements of these companies stay on top of their working positions.

Need for the study:

It will be useful to look into the nature and factors that contributed to the performance of India's LIC and the private sector insurance players from 2000-01 to 2009-10 in order to formulate future course of action in the area of product research and development, wealth management as well as customer relationship management of the Indian life insurance players Life insurance industry growth in India is essential for a healthy economy and this will help the various stakeholders understand the root causes of the current situation, as well as understand and appreciate the other stakeholders' attitudes, in order to promote compromising as well as conciliatory behaviour that is the essential pre-requisite for this. We hope this study will help in the urgent need to improve efficiency in both public and private sector units, which are expected to play a significant role in the years ahead, and to give a new outlook on the life insurance policy laid down by Government and the Insurance Regulatory and Development Authority, respectively. It also aims to discover the causes of and preventative measures for any future inadequacies. The use of statistical approaches necessitates a great deal of impartial evaluation of the issues. Many facets of the performance review of the life insurance business will be brought to light, with a broader perspective, that contribute to higher insurance penetration and improved customer service.

As a result, it is believed that the findings of this study will be beneficial in comparing the insurance sector to other industries, not just those that have just entered or are expected to enter the industry in the future. As a result, additional care is used when doing such a research project.

Objectives:

Changes have taken place in the Indian life insurance market. Since the implementation of insurance reforms in 1999, it has faced new problems of severe competition and struggle for existence. As the economic landscape shifts, it is imperative that insurance industry reforms be made more transparent, viable, and sound. One of the most pressing issues for many stakeholders is the future of the liberalised insurance market. New business, product development, social responsibilities, profitability, distribution channels, and customer service are some of the elements that show how the life insurance sector is growing and developing. Because of this, the primary focus of our research is on the following goals.

- An investigation into how India's life insurance market has fared after liberalisation and the subsequent opening of the market to the private sector ten years ago (from 2001 to 2010);
- Life insurance industry growth and development in India over the study period need to be identified, selected, and analysed.
- On the basis of the specified characteristics, to compare the performance of government and non - governmental life insurance units
- To determine the weaknesses and strengths of the life insurance industry's players in the post-liberalized market; and.
- The policymakers concerned should be encouraged to take appropriate actions to improve their performance, productivity, and profitability.

How to conduct a statistical analysis:

The data used in this study is primarily derived from secondary sources. According to the records and reports of IRDA, LIC and all 22 private sector insurance companies, the data are obtained. In addition, the life insurance industry's top executives are interviewed on a variety of themes in personal meetings. During the course of the research, books and publications of insurance significance are also consulted. This study also relied on data published by other insurance consulting groups. In addition, information was gathered through looking at the websites of various insurance providers and the Regulator, when data was insufficient in certain areas. Accordingly, the data gathered from various sources has been analysed using appropriate statistical techniques such as the mean, standard deviation (SD), skewness, correlation, and regression analysis and included in the relevant columns of the tables with line graphs and regression plots to arrive at accurate conclusions on the stability of both LIC and Private Sector life insurance growth rates and market share. The observed figures are also compared to the linear trend values using a linear mathematical model.

The mean is calculated by taking the sum of all the data and dividing it by the total number of data points. The arithmetic mean is a type of this. With respect to statistical distributions, the mean and standard deviation are frequently cited together. The mean tells us where the majority of the data falls. In statistics and probability, the standard deviation is a commonly used measure of variety or variation. How much of a difference there is from the average is shown by the variance Data with a low standard deviation are likely to be extremely close to the mean, whereas those with a high SD are more likely to be dispersed across a wide range of values. The skewness of a real-valued random variable's probability distribution is a measure of its asymmetry. Positive, negative, or even undecided skewness values are all possible. To put it another way, a positive skew suggests that there is a longer tail on one side, and most values are located to the left of this tail. In the case of a negative skew, this means that the tails on the left and right are longer than the mean, and the majority of the value is located to the right. A value of zero implies that the data are equally spread out on either side of the mean.

Using a scatter plot is an easy approach to assess data in connection to each other On the horizontal (X-axis) is one variable, and on the vertical (Y-axis) is another. This is a graph. There is no correlation between the two variables if the points are randomly distributed. The variables are said to be linked if there is a linear or curvilinear relationship between them. A straight line will be drawn if the variables are perfectly connected. R=0.0 or r=0.0 means there is no correlation. If two variables are included in a regression analysis, it is said to be a "regression." The best-fitting straight line is drawn through the plot by the analysis. A line can only be described with the help of two pieces of information: the slope (b) and the y-intercept (a). When the slope is positive (+) or negative (–), it indicates how much the y-variable changes for each unit change in the x-variable. Where the line begins (i.e. what y is when x = 0) can be found by looking at the y-intercept. A straight line can be represented by the equation Y=$a \pm b$X. Plots of regression are employed. There will be little or no difference between the independent and dependent variables when the 'F' statistic has a small significance value (less than, say, 0.05). There is no correlation between the independent factors and the dependent variable when the significance value of 'F' is greater than 0.05. The appropriateness of the linear model is measured using a value referred to as R square value. Correlation coefficient squared ranges from 0 to 1, with a value between 0 and 1. The linear model is deemed to be well-fitting if the value of R square is high and close to '1.'

Hypotheses:

A hypothesis that compares the performance of both government and non - governmental life insurance companies in India following liberalisation is more relevant to the stated aims. In truth, insurance reforms have resulted in significant improvements in the policies and operations of these insurance companies. As a result, the following hypotheses are put to the test:

- As the life insurance market becomes more open, more people will be exposed to it and more people will be aware of the benefits it offers.
- Life insurance in India has seen a structural upheaval since the introduction of new commercial insurance companies, which has resulted in severe competition for LIC. In

order to maintain its market leadership, LIC is required to rethink its old marketing and sales techniques in order to better meet the needs of its clients.

- Insurance industry liberalisation in India has a substantial impact on the quality of services provided by insurance companies; and
- Reforms in the insurance industry have made it possible for both public and private life insurance companies to use cutting-edge technology to better serve their consumers.

Period of study:

From 2000-01 to 2009-10, the implementation of changes in the insurance sector has been progressing, according to this report. Some consider a decade to be an acceptable time frame for a research like this one, which aims to identify the challenges encountered by insurance companies and recommend actions that can help the Indian life insurance business overcome them. A thorough analysis and accurate interpretation of data can only be achieved by incorporating developments that have taken place since the year 2009-10, which is the final year of the current study period. To arrive at significant and practical solutions to the challenges that are highly reliable and worthy of consideration by the insurance players and the Regulator, this is necessary.

Private Life Insurers' Total Income & New Business:

As of the end of 2010, private sector life insurance businesses had increased their income & life insurance business in terms of total premium insured by private players. During the period 2002-2010, the growth rate of the private life insurers' total income is shown in Table 1. From 2001-2002 to 2009-2010, private players' overall income increased at an astounding rate. Private insurers, on the other hand, have made money on their investments and spent a lot of money on operational costs. Initially, the extra money can only be used to pay down the company's operating expenses.

Year	Private Sector (Growth %)
2001-02	2.06
2002-03	220.45
2003-04	7.85
2004-05	6.04
2005-06	7.51
2006-07	4.52
2007-08	23.36
2008-09	336.82
2009-10	30.69

Table 1: During the period 2002-2010, the total income collected by life insurers
Source: Compilation of IRDA Annual Reports.

For the years 2000-01 to 2009-10, private life insurers' share of new business and first-year premiums is shown in Table02. There has been an annual growth rate of 259.64 percent for the private players' first-year premium. As a result of their employment of aggressive marketing techniques, private insurance companies have been able to gain a foothold in the market for insurance coverages. Subsequently, in 2008-09, private players slightly raised their premium collecting. Since 2007-08 to 2008-09, their share has risen from 35.98 percent to 39 percent, notwithstanding the decline in their ULIP business. Our country's undeveloped insurance industry can be reached with this technology. Due to new rules, the private sector's share of the ULIP market fell to 34.92 percent in 2009-10. Overall, post-liberalization, life insurers have experienced an increase in business, on average, over this time period.

Year	**Private Sector**	
	Amount	%
2000-01	6.44	0.08
2001-02	268.52 (4062.95)	1.36
2002-03	964.69 (259.64)	5.71
2003-04	2441.71 (152.73)	12.33
2004-05	5563.57 (127.98)	21.21
2005-06	10268.67 (84.55)	26.47
2006-07	19425.65 (89.17)	25.67
2007-08	33715.95 (73.55)	34.98
2008-09	34151.90 (1.29)	39.11
2009-10	38371.12 (12.36)	34.92

Table 2: Life insurers' increase and market share in new business and the first-year premium from 2000-01 to 2009-10

Note: The annual percentage growth rates are shown in brackets, New Business/First Year Premium also includes a single premium in the insurers' market share percentage.

Source: Compilation of IRDA Annual Reports.

Operating costs include salaries, benefits, and other costs associated with human resources, as well as travel, transportation, and vehicle operating costs, as well as costs associated with employee education and training, as well as rent, rates, and taxes, as well as costs associated with repairs, printing, and stationery, as well as legal and professional fees, medical expenses, auditor fees, and costs associated with advertising and bank charges. From 2000-01 to 2009-10, life insurers' operational expenses as a proportion of premium covered were shown in Table 3. From 5.76 percent in 2008-09 to 6.58 percent in 2009-10, this chart clearly illustrates an increase in the LIC %. In contrast, for private insurers, this percentage has dropped from 25.83 to 20.86 over the time period. Across the entire industry, the ratio of operational costs to premiums covered

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dropped from 11.64 percent in 2008-09 to 10.85 percent in 2009-10. In 2006-07, the percentage of private insurers was 23%, whereas in 2007-08, it was 23.25%. Additionally, the LIC's operating ratio has fluctuated between 4.48 and 5.55.

Insurers' operating expenses have steadily climbed throughout the years, in tandem with the rise in premiums they've insured. A large drop in ULIP business, combined with insurer restructuring initiatives, has reduced the ratio to some extent. A further benefit of the regulator's mandated expenditure control rules has been a decrease in both the absolute amount and the ratio of operational expenses to the premium underwritten.

Year	LIC			Private Sector			Total		
	Expensive operating costs	Premium Underwritten	Ratio (%)	Expensive operating costs	Premium Underwritten	Ratio (%)	Expensive operating costs	Premium Underwritten	Rati o (%)
2000-01	3706.55	34892.03	10.61	49.04	6.46	760.15	3755.58	34898.46	10.75
2001-02	4260.28	49821.81	8.55	419.37	272.54	153.00	4679.75	50094.36	9.24
2002-03	4571.76	54628.48	8.36	838.28	1119.06	74.90	5410.04	55747.55	9.70
2003-04	5186.50	63167.60	8.21	1402.44	3120.33	44.94	6588.94	66,28,7.93	9.91
2004-05	6241.26	75127.29	8.31	2229.47	7717.51	28.85	8470.73	82854.80	10.22
2005-06	6041.55	90792.22	6.65	3568.14	15082.54	23.65	9608.69	105875.76	9.05
2006-07	7085.84	127822.84	4.48	6500.01	28242.48	23.00	13585.85	156074.86	8.70
2007-08	8309.32	149788.99	5.55	11989.34	51561.41	23.25	20341.78	201351.41	10.09
2008-09	9064.29	157287.04	5.76	16659.60	64496.42	25.83	25828.32	221785.48	11.63
2009-10	12245.82	186077.32	6.58	16561.21	79373.06	20.86	28806.93	265451.37	10.86

Table 3: From 2000-01 to 2009-10, operating costs as a percentage of premiums underwritten by life insurance companies

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Statistical Analysis:

(A) LIC

- Mean and Standard Deviation

Particulars	LIC Operating Expenses	LIC Premium Underwritten
No. of Years	10	10
Mean	6671.32	98941.75
Standard Deviation	2613.07	52501.58

Information on LIC's typical operating costs is shown in the following table. On an annual basis, the company spends Rs 6671.32 crores on operating expenses and Rs 98941.75 crores on premiums. There was a standard deviation of 2613.07 crores in operating expenses and a premium underwritten of Rs 52501.58 crores between 2001 and 2010's.

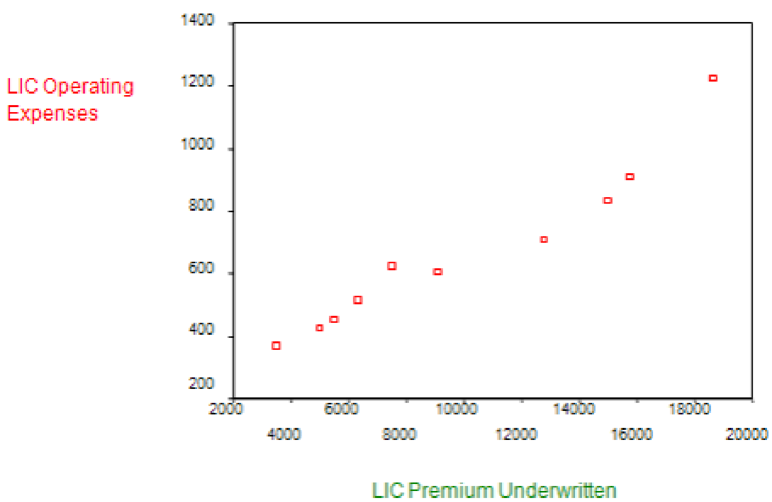

Figure 1: Operating costs of the LIC The Plot of Scatter Data

(B) Private Sector

- Mean and Standard Deviation

Particulars	LIC Operating Expenses	LIC Premium Underwritten
No. of Years	10	10
Mean	6022.66	25101.39
Standard Deviation	6631.16	29653.96

Statistical summaries are shown in the table for continuous, numeric data. The mean, for example, is a measure of central tendency in summary statistics. The premium covered is Rs 25101.39 crores, and the average operating expense is Rs 602.66 crores, as shown in the table above. During 2001-10, the underwriting premium was Rs 29653.96 crores, with a standard deviation of Rs 6631.16 crores.

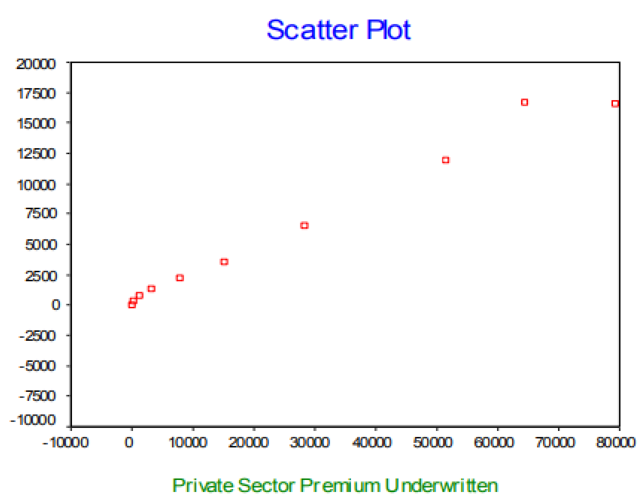

Figure 2: Scatter Plot in the Private Sector

Challenges:

- One of the most difficult challenges facing a private life insurance company is competing in a market where clients have access to a wide range of insurance options, professional consulting, and a focus on the needs of the customer. The insurance must always be aware of and responsive to the demands and expectations of its customers.

As a result of the increased rivalry among insurance companies, the market for insurance has grown. In order to compete with LIC's Giant Corporation, private players must improve their efficiency.

- IRDA's standards, norms, and regulations are sometimes ignored by private insurers. They are employing the most effective methods to reach their target market. As a result, the role of a regular becomes critical in ensuring that insurers' operations are being monitored and guided in the right direction. In today's highly competitive market, insurance companies must do everything in their power to stay one step ahead of the competition.
- In the early stages of the private sector's growth in India, there was a rapid proliferation of branches across the country. As a result, they are saddled with unmanageable operational expenses, whereas the LIC has a large network and does not require the opening of additional branches. Since most private players are currently losing money, they're revamping their operations in order to reduce the costs of doing business. Future losses may be lessened as a result of this.
- There is also a lack of adequate apparatus to handle the claims. Claims that have been rejected or are still pending are quite rare at LIC, thanks to its extensive network, experienced employees and wide range of services.
- Complaint handling in the private sector is taking too long because of a lack of people and a lack of efficiency in dealing with complaints. Several complaints have been outstanding for some time. It is for this reason that the private players will have access to highly qualified people who can address customer concerns immediately.
- Because agents must go to outlying areas to raise awareness and encourage people to get life insurance, the costs of distribution will be significant. Many insurance companies face severe financial difficulties as a result of this. Life insurance companies are mostly engaged in retail sales. The insurance agents are heavily involved in the marketing of insurance policies. They want insurance providers to support them with quick, accurate, and proper insurance advertising. Insurance

policyholders should be able to contact individual agents and brokers directly for service requests, complaints and ideas. Many measures have already been made by LIC of India in this regard. In addition, private insurers must give the tools necessary to keep in touch with their clients on a frequent basis.

Conclusion:

When population growth is taken into account as well as a rise in life insurance businesses, private sector GDS (Gross Domestic Savings) contribution rises to 9.5 percent from 7.60 percent. It is evident in India's economic climate, which provides a solid foundation for the growth of the country's life insurance business.

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