

**“A STUDY ON RECENT TRENDS OF LIFE INSURANCE
INDUSTRY AFTER LIBERALIZATION “**

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ABSTRACT:

Insurance plays an important role in the growth of an economy. The life insurance service providers offer a variety of products to businesses and individuals in order to provide protection from risk and to ensure financial security. Insurance Industry in India is booming but not to level comparative with the developed economics such as Japan, Singapore and other developed economies of the world. After liberalization, the industry has gone under a massive change and witnessed several positive developments with significant double digit growth. The present descriptive and evaluative based study is conducted with an objective to study various recent and emerging trends of life insurance in post liberalization period. The period of study confined to ten years from 2001-02 to 2009-10 and purely based on the secondary data obtained through IRDA website, Company's websites, annual reports, various insurance publications, insurance journals, internet etc. The data has been presented and analysis in the form of tables and graphs. Entry of foreign firms, increased market competition, rising market share of private insurers, repositioning of life insurance products and services, customer relationship management, multiple distribution channels are some of the recent trends of life insurance which have been discussed at length in the paper. There has been witnessed remarkable growth in life insurance premium income, new business policies and large contribution of Unit linked policies in life insurance business, the market share of LIC has been declined after privatization but the overall growth of the industry has been improved over the last few years of

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liberalization are the major findings of the study. The paper concludes that there is a phenomenal opportunity of market expansion for life insurers in India and the changing trends of Indian insurance industry is the only best way to deal with the challenges and survive in turbulence global competitive business environment.

Keywords: Life Insurance Industry, Liberalization, LIC, Market Competition, Private life Insurers, Trends.

INTRODUCTION:

The year 1999 saw a revolution in the Indian insurance sector, as major structural changes took place with the ending of government monopoly and the establishment of IRDA which gave a way for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. The life insurance business in India has witnessed rapid transformation in post liberalization period, when this sector was thrown open to the private sector. The market has progressed a great deal from the pre-liberalization era, when there was only one player Life Insurance Corporation of India Ltd (LIC) to the present situation where there are 22 private companies and many of which are joint ventures with the foreign firms. Innovative products, smart marketing and aggressive distribution have enabled private life insurers to capture considerable percentage of market share and felt their strong presence in the market.

LIBERALIZATION OF LIFE INSURANCE INDUSTRY:

With a population of over one billion, national and international life insurance companies, see India as a land of opportunities and a market for big business. Until 1999, the business of life insurance in India was the monopoly of Life Insurance Corporation of India (LIC). Privatization witnessed dynamic changes and phenomenal growth in life insurance businesses. Most of the private insurance companies are joint ventures with recognized foreign players across the globe. As of 31st March 2010, total number of 22 private life insurers are

competing with each other and striving hard to capture a sizeable share of market. After the entry of private players, the market share of LIC has been considerably declined from 99 percent in 1999-2000 to 64.34 percent in 2009-10. Over a period of last ten years since liberalization, the life insurance players are able to expand the market (growing at the rate of 30-35% annually) and also have significantly, improved their market share. The private insurers are better in the areas of customer service, after-sales services, product innovation & flexibility, communication etc where insurance giant LIC is not performing effectively. Therefore this shows that liberalization has brought a dynamic positive impact on the performance and growth of the Indian life insurance industry.

LITERATURE REVIEW:

Jayakar (2003) in his study emphasized that new products innovation; distribution and better use of technology are helping the new private life insurers to take market share away from LIC, an only company before liberalization of Insurance Industry. With the privatization of insurance sector and with the entrance and cut throat competition with the private sectors gaining an ever increasing edge over the public sector.

Mishra. V and Ghosh. R (2010) in their paper titled “Performance Evaluation of ULIPs in India: A Case Study”. In this paper the performance evaluation of ULIP is carried out through risk-return analysis. The research objective was to examine the performance of endowment funds-growth of selected life insurers in comparison to other life insurance companies.

Narayan. J (2008) in his article stressed on the emerging trends and role of Intermediaries in the success of Insurance business. He viewed that selling of life Insurance products largely depends on the skill and efficiency of the distributor. The role of agent is very important than other forms of marketing channels like brokers, corporate agents and banc assurance etc. Bancassurance emerging as a new form of distribution channel where banks performed role of intermediary and sell policies directly to the customers. Banc assurance is also gaining popularity and becomes a second preferred distribution channel by the life Insurers.

Sharma. R (2010) in his article titled ‘Changing scenario of Life Insurance Marketing in India’ clearly indicates that the monopoly of LIC was break with the entry of private players in life

Insurance market. Over a period of time, LIC loosing its market share and the private life insurers are making their presence felt. The analysis of data reveals that with aggressive marketing approach private players are gradually capturing the Indian market and giving direct threat to the LIC, a dominant life Insurance player.

Srivastava. A and Tripathi. S., Amit Kumar in the research titled “Indian Life Insurance Industry- The Changing Trends” has emphasized on growth of the insurance sector in India has been phenomenal. Indian life insurance industry has gone through many changes and entry of private insurers after liberalization has contributed to significant growth of life insurance business. Changing business environment and increased market competition forces LIC and other private life insurers to adopt new trends like customer centric approach, product innovation, service quality improvement and multiple distribution channels to reach to the huge potential untapped market available in India.

NEED OF THE STUDY:

The insurance industry as a financial service is considered as one of the important segments in an economy for its growth and development. The Indian insurance sector has started showing signs of significant changes after opening of industry to private players. Today 22 private players competing with LIC; the only life insurer prior to liberalization for insuring Indian lives. Even after privatization, LIC holds dominant position but the market share of private life insurers are consistently improving year after year with their aggressive marketing strategy, product innovation, novel distribution channels and customer centric approach. It is evident from the various studies and expert's views that life insurance industry is able to achieved present double digit growth i.e 32-36% of annually after liberalization. Therefore in this context, the present study has been taken up to study the various emerging trends which contribute to greater market penetration and growth of life insurance business in India.

SIGNIFICANCE OF THE STUDY:

The insurance industry is one of the fastest growing industries in the country and is growing at double-digit rate of 32-36% annually. LIC was the only life insurance player before privatization, but now it is facing strong competition from various private new entrants. The under-penetrated life insurance market and huge untapped insurable population of India offers unlimited scope of growth to the industry. In present days, every life insurers are striving hard to capture sizeable share of market by adopting channel centric and customer centric model. Liberalization of insurance industry brought various new trends such as banc assurance, customer centric model, product innovation, better customer relationship marketing and aggressive marketing approach of private insurers has given new insight to the life insurance industry.

OBJECTIVES OF THE STUDY:

- 1 To study recent emerging trends of life insurance after liberalization.
2. To evaluate the emerging trends of life insurance industry in post-liberalization period.
3. To study the impact of new trends on the performance of Indian life insurance business.
4. To offer suggestions to improve and accelerate the performance of life insurance business.

RESEARCH METHODOLOGY

The present descriptive and analytical based study is purely based on secondary data. Researcher has taken LIC and all private life insurers and period of study is of ten years from 2001-02 to 2009-10. The data for study has been collected from IRDA website, annual reports of LIC, internet, insurance journals and other publications.

LIMITATIONS

This research is purely based on secondary data and trends before liberalization of insurance industry has not been covered under the present study.

RECENT TRENDS IN LIFE INSURANCE INDUSTRY AFTER LIBERALIZATION

The Government of India liberalized the insurance sector in March 2000 with the passage of IRDA bill, lifting all entry restrictions to private players and allowing foreign players to enter the market with some limits on direct foreign ownership. The present rate of foreign share is 26% and it has been already proposed by government in December 2008 to raise the foreign ownership limits up to 49% and minimum capital requirement from 5 crore to Rs. 100 crore but this is yet to be effected. IRDA is the major body, which is providing better opportunity to private players in India. LIC monopoly approach is no more prevalent in India after liberalization. The new market scenario for insurance is growing and huge middle class population provides unlimited scope for this industry in their expansion and market growth.

The changing trends in life insurance market after liberalization can be summarized as follows:

1. Entry of foreign firms: Immediately after opening of the sector in 1999, several Indian private companies have entered into life insurance sector along joint ventures with one or more foreign firms. As per IRDA rules, the percentage of partnership between foreign and Indian private company is 26:74 respectively. The upper limit of FDI in insurance is likely to increase in the near future. High FDI in insurance will further accelerate the growth of life insurance business and also generate more revenue for the economic development.

2. Increased in market competition: With the entry of many private life insurers, the market competition has been significantly increased and also challenged the monopoly of LIC. Presently 22 private insurers are operating in Indian life insurance market and giving strong competition to each other in terms of product mix, customer services and distribution. Private life insurers are growing rapidly with their aggressive marketing strategy and by providing variety of customer need based products with better customer services and new attractive delivery channel like bancassurance, corporate tie-ups, internet etc. Privatization has altogether brings a positive changes and witnessed a growth of life insurance business.

3. Increased Market share of private Life Insurance Companies: With aggressive marketing and meeting international quality standards the private companies have provided strong competition to the market leader, LIC and taken away some of its market share. The monopoly market condition of LIC has been transformed into an oligopoly market in post liberalization.

Therefore now customers have more options to select from variety of products and get better customer services than before.

4. Effective Customer Relationship Management: The goals of customer relations are to make the customer feel valued, identify problems and find solution accordingly to satisfy them effectively. Insurers can reach the customer's expectations by understanding the needs and behavior of the customers, which will help them to improve their profits. CRM brings about a positive change and benefited to all the parties involved in the process of Insurance.

5. Targeting Niche Segments: The repositioning of life insurance as an investment avenue has led to the discovery of new segments such as pension plans, health plans. To survive in today's tough market competition, life insurers are targeting niche segments in order to target uncovered potential market and get profit out of it.

6. Emerging New & Multiple Distribution Channels: Life insurance is no longer sold only by agents. Other channels, like bancassurance, corporate agents and the internet, are being used by companies as important means for selling insurance products.

Table 1

Channel- Wise Trends of Individual New Business Performance of Life Insurers FY (2004-05-2009-10)

(In Percentage)

FY	CHANNEL-WISE DISTRIBUTION				
	INDIVIDUAL AGENTS	BANKS	REFERRALS	DIRECT SELLING	BROKERS
2004-05	59.30	15.52	6.25	10.05	1.23
2005-06	59.71	16.87	7.06	6.61	0.83
2006-07	65.80	16.58	6.77	1.39	1.05
2007-08	53.46	18.12	6.96	16.81	1.61
2008-09	54.94	20.78	9.27	11.37	2.00
2009-10	50.67	24.88	7.85	10.73	3.44
LIC	INDIVIDUAL AGENTS	BANKS	REFERRALS	DIRECT SELLING	BROKERS
2004-05	98.79	0.87	0.00	0.00	0.04
2005-06	98.37	1.25	0.00	0.00	0.06
2006-07	97.28	1.24	0.24	0.00	0.34

2007-08	82.98	1.32	0.00	15.85	0.05
2008-09	97.34	1.70	0.03	0.00	0.47
2009-10	97.75	1.64	0.18	0.00	0.09

(Source: Various Issues of IRDA Annual Reports)

Agents and Bancassurance are the two most preferred channels of life insurance service providers. Most of the insurers preferred bancassurance as the second best form of channel and particularly by private life insurers. The above table no.1 presents the channel-wise trends of individual new business performance of life insurers from the year 2004-05 to 2009-10. The share of individual agents of private insurers in new business life insurance performance has been declined from 59.305 in 2004-05 to 50.67% in 2009-10 and that of LIC has decreased from 98.79% in 2004-05 to 97.75% in 2009-10. On the contrary, the share of banks in life insurance new business performance of private insurers has been increased from 15.52% in 2004-05 to 24.88% in 2009-10, which showing an increasing role of banks in life insurance business whereas the share of banks in LIC has also been improved from 0.87% in 2004-10 to 1.64% in 2009-10. Hence it can be depicted that with passage of time and increased market competition, the various new forms of channels has been emerged which earlier limited and depends solely on individual agents.

Product Innovation: Today the success of insurance companies greatly depends on the launching of new and innovative products which can best satisfy the needs of the customers. Every year a great number of new products have been introduced and marketed by life insurance companies to suit the varied need of the customers.

Rising Demand of Micro-Insurance products: More than 70 percent Indian lives in rural areas and availability of huge scope in these areas have attracted many life insurers to target poor rural people. Micro-insurance plans are specifically designed to tap rural market where a majority of people have low income.

Increase in Life Insurance Business: Liberalization of insurance industry has made noteworthy contribution to the performance of the insurance business in terms of total premium income, new business policies.

The below table no. 2,3 and graph 1,2 has clearly depicts the trend of life insurance industry in terms of total premium income and new policies business during the study period of 2001-02 to 2009-10. Premium income is that income which life insurance companies received from the policyholders either annually, half-yearly or quarterly depending on the nature of policy. The premium income of life insurance industry (LIC+ Private insurers) has increased from Rs. 50094.56 crores in 2001-02 to Rs. 265450.37 crores in 2009-10, showing a significant growth in total premium income.

Likewise, new policies business of industry has also grew significantly from 23275476 lakhs in 2001-02 to 53225593 lakhs in 2009-10. New policies business of LIC is much better than the private insurers altogether. Thus it is clear from the data that a consistent improvement has been observed in total premium income and new policies business of LIC, Private insurers and Industry in a period of ten years since its liberalization.

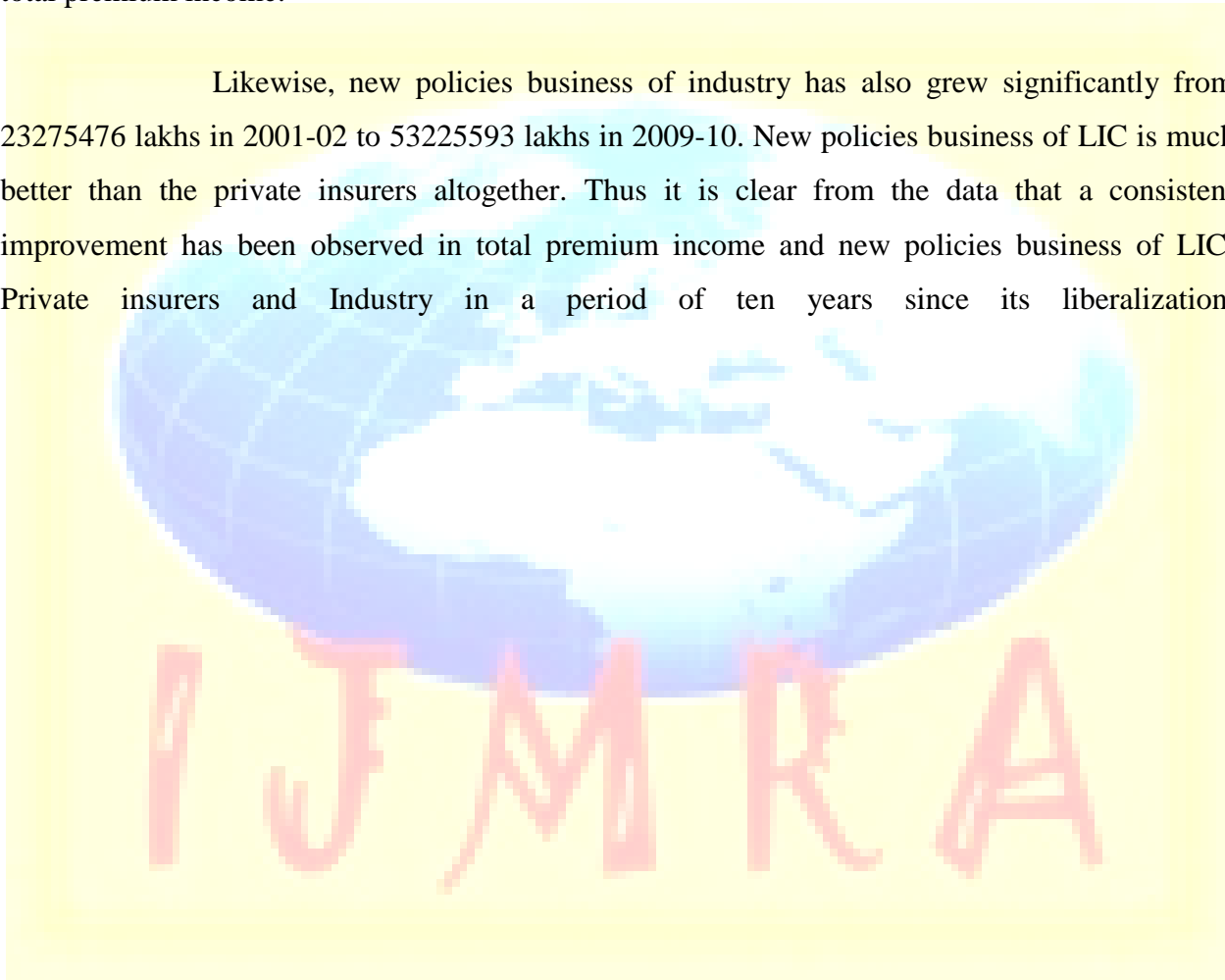


Table 2
Trends In Life Insurance Premium Income FY (2001 to 2010)

(Rs. In Crore)

FY	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
LIC	49821.91	54628.49	63533.43	75127.29	90792.22	127822.84	149789.99	157288.04	186077.31
Private	272.55	1119.06	3120.33	7727.51	15083.54	28242.48	51561.42	64497.43	79373.06
Total	50094.46	55747.55	66653.75	82854.80	105875.76	156065.32	201351.41	221785.47	265450.37

(Source: IRDA Annual Report 2009-2010)

Graph 1
Trends In Life Insurance Premium Income

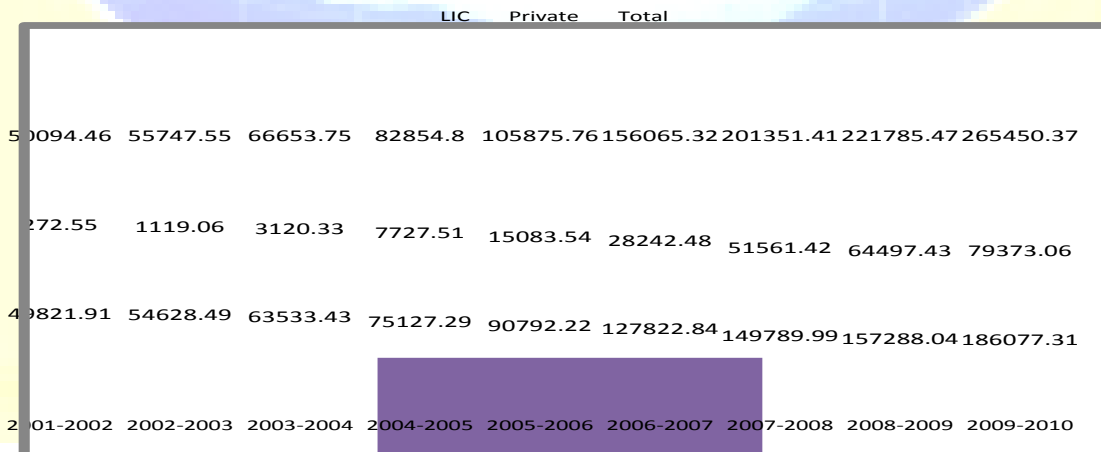


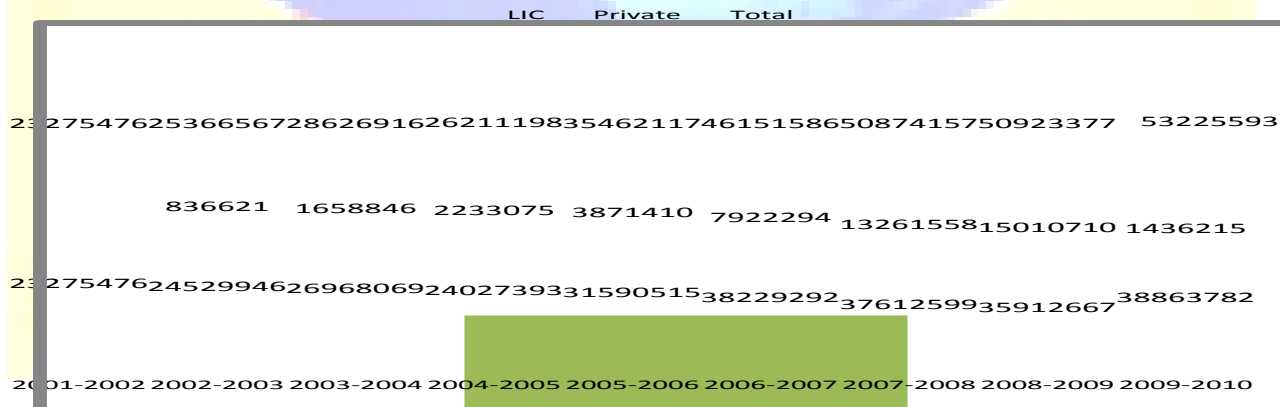
Table 3
Trends in New Policies Business FY (2001 to 2010)

(Nos. In lakhs)

FY	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
LIC	23275476	24529946	26968069	24027393	31590515	382.29292	37612599	35912667	38863782
Private	N.A.	836621	1658846	2233075	3871410	7922294	13261558	15010710	1436215
Total	23275476	25366567	28626916	26211198	35462117	46151586	50874157	50923377	53225593

(Source: Data Compiled from the various Annual Reports of IRDA)

Graph 2
Trends in New Policies Business



Repositioning of Life Insurance- During the pre-liberalisation period, the life insurance business had focused mainly on tax saving, apart from providing risk coverage to the beneficiaries, in the event of untimely death or sudden accident. After Liberalisation, the positioning of life insurance has changed from to save taxes, to an investment opportunity. The introduction of Unit Linked Insurance Plan (ULIP) by LIC was the starting point, which was taken up aggressively by the private companies. In present day times, ULIPs are the highest contributors to the business growth of most life insurance companies in India. The contribution of Unit linked funds in investment has increased from 41.77% in 2005-06 to 91.95% in 2009-10.

Table 4

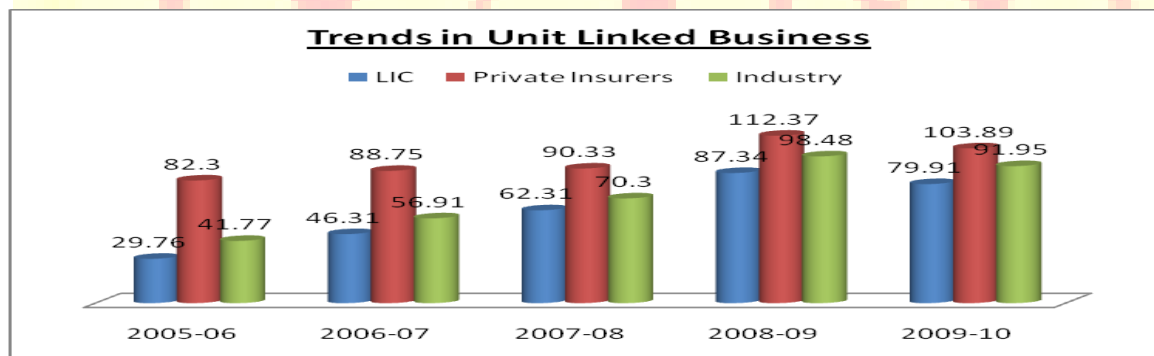
Trends in Unit Linked Plans of Life Insurance Business FY (2005-2010)

(In Percent)

Unit Linked Business (%)					
Life Insurers	2005-06	2006-07	2007-08	2008-09	2009-10
LIC	29.76	46.31	62.31	87.34	79.91
Private Insurers	82.30	88.75	90.33	112.37	103.89
Industry	41.77	56.91	70.30	98.48	91.95

(Source: Data Compiled From Various Annual Reports of IRDA)

Graph 3



The table no.4 and graph 3, reveals the share of private insurers in Unit linked business has increased from 82.30% in 2005-06 to 103.89% in 2009-10 whereas the share of LIC in unit linked business was only 29.76% in 2005-06, showing less than half of private insurers and it has increased to 79.91% in 2009-10, showing less than that of private insurers in the year 2005-06. Hence it can be concluded that today a large business of private life insurers depends on the sale of Unit linked policies.

FINDINGS:

1. A remarkable growth in life insurance premium income, new business policies has been witnessed after liberalization and privatization of insurance industry.
2. The market share of life insurance giant LIC has considerably declined after the entry of private entrants.
3. A large number of new customer centric products have been introduced after liberalization and insurance companies in present days stressed more on Unit linked policies than traditional endowment and terms plans.
4. Life insurance service providers are giving more attention on providing better quality services to the customers and striving hard to capture large portion of market share.
5. The overall business performance of life insurance industry has been remarkably improved and touched to double-digit growth in few years of liberalization.
6. Agents and banks are the two most preferred channels of distribution for life insurance companies.

SUGGESTIONS:

1. LIC has a strong presence in life insurance market and thus to retain its dominant position the LIC needs to acquire more competitiveness in terms of product innovation, customer awareness, customer services and technology.
2. Private insurance companies gradually made their presence felt by focusing on better services and relationship marketing.
3. Customer service is the critical success factor and private insurers through delivery of best services would be able to reposition and differentiate itself from LIC.
4. To reach the rural segment, Insurance companies should utilize multiple channels such as NGO's self help groups, co-operative societies, regional rural banks, e-choupal and post offices.
5. Companies needs to focus on targeting new segments and implement innovative strategies in order to achieve sustained growth and ensure profitability of business as well as greater insurance coverage.
6. Bancassurance can become an effective distribution channel provided there is better understanding of the synergistic benefits for both the banks and insurance companies.
7. Nowadays, Unit linked plans are more preferred over the traditional plans and therefore insurance companies should come out with growth oriented unit linked insurance plans and communicate their benefits to the investors.
8. Insurers should design the product which will satisfy the personal needs of customers with an ample degree of flexibilities and exploit new opportunities for the benefit of the customers.
9. The awareness level of customers on various aspects of insurance products like maturity period of policy, agent commission, policy terms and conditions, surrender charges, allocation charges, bonus amount etc. need to be enhanced through effective advertising, promotion of products and giving right information to the customers at the time of policy buying.

10. Effective implementation of CRM mechanism which ensures greater customer satisfaction and retention of the old customers. Timely co-operation of agents, prompt services and speedy claim settlement process are some of the effective ways to enhance customer satisfaction.

CONCLUSION:

Liberalization of insurance industry has witnessed major structural transformations and growth in life insurance business. Privatization proved to be a win-win situation for both insurers and customers as well. Indian insurance industry has modified itself with the passage of time by introducing customized products based on customers' need, through innovative distribution channels, Indian life insurance industry searched its path grow. With the opening up of the sector, the monopoly status of LIC gets end and bring in a tough competition among the players. LIC is facing a direct competition from private insurers and increased competition within the industry resulted into innovations in products, pricing, distribution channels and marketing in the industry. Privatization of the insurance sector has opened the doors to innovation and most cost effective way of operating an insurance business. In spite of the presence of large number of life insurance service providers, the insurance penetration in India is very low and less than forty percent population is insured. Low awareness and under-penetrated life insurance market is the main challenge before the industry. Therefore to increase life insurance penetration insurance companies need to design new tailor made products with low premium charges and adopt aggressive marketing approach with government support to tap huge untapped market. To sum up, it can be conclude that the future of life insurance is very bright and promising. India is the important emerging insurance markets in the world and life insurance will grow very rapidly over the next decades in India.

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