

**COMPARATIVE STUDY OF SERVICE INDUSTRIES WITH
SPECIAL REFERENCE TO LIC AND PRIVATE SECTOR
INSURANCE COMPANIES WITH RESPECT TO MARKET
COVERAGE**

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1. Introduction

The insurance industry in India has undergone through a period of structural changes as a result of financial sector reforms in general and insurance sector in particular. With the liberalization of insurance sector, Indian insurance industry has witnessed a sea change during the last decade. The insurance sector has now entered into a competitive phase due to entry of more players. As a result there has been expansion and growth of insurance both in the life and non-life business. Life Insurance Corporation of India was the only company prior to liberalization and it enjoyed a monopoly until the entry of private companies. The Indian insurance industry was opened for private insurers in the year 1999, with the enforcement and establishment of Industrial Regulatory and Development Authority Act. Insurance sector in India is one of the booming sectors of the economy and presently growing at the rate of 35-40% per cent annually with a total insurable population of less than forty percent. Huge untapped population provides unlimited scope to life insurance companies for market expansion and penetration. There was a remarkable improvement in the Indian insurance industry soon after the Indian economic reforms of 1991 characterized by three important elements i.e. Liberalization, privatization, and globalization (LPG). In the post liberalization period, the life insurance industry of India

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witnessed a remarkable growth and it is being forced to face a lot of healthy competition from many domestic as well as international private insurance players.

The landscape of the insurance business expanded rapidly with the introduction of private life insurance companies. The insurance sector in India has gone through the process of reforms under the recommendations of Malhotra Committee. The Insurance Regulatory and Development Authority (IRDA) Bill was passed by the Indian Parliament in December 1999.

The IRDA became a statutory body in April 2000 and has been framing regulations and registering the private sector insurance companies. The insurance sector was opened to the private sector in August 2000. Consequently, some Indian and foreign private companies entered the insurance business associating with foreign insurers. There were about 23 life Insurance companies operating in the private sector in India in the year 2009. With the entry of private sector life insurance companies, LIC as the single largest player lost its monopoly position in the life insurance business.

Key words: insurance density, insurance penetration, private life insurance companies, insurance premium.

2. Research Methodology

Research paper attempts to compare performance of 24 companies operating at national level. Secondary data sources are assessed for the purpose. The conclusions are formed on the basis of comparative data for the year 2009 to 2015.

2.1 Objectives of the study

LIC is public sector giant in the life insurance business. With liberalization of business, private sector started competing with LIC. Following are the objectives of the research paper

1. To determine impact of liberalization on the density of life insurance and its penetration.
2. To evaluate role of LIC on one hand and all private life insurance companies on the other in expanding market for life insurance business.

3. To evaluate strategic focus of life insurance companies on the basis of geographic coverage.
4. To evaluate impact of competition from private limited companies on the business of LIC.

2.2 Period of Study

The study is confined to the period 2009-15 as the number of private sector life insurers grew to 23 in post liberalization period. The period of 2009 to 2015 is important on the backdrop of slump of 2007.

2.3 Limitations of the study

- Secondary data is used to analyze performance of the life insurance companies for the above period.
- The study does not focus on individual life insurance companies but it considers LIC as public sector life insurer on one hand and all private sector life insurance companies on the other. This comparison may not give true picture of the progress made by the individual companies in the given period.
- Parameters selected for comparison are limited and therefore other factors having impact on the spread of the life insurance are not taken into account.

3. Life Insurance Penetration and Density in India in post liberalization period

Table 1

Year	Density(USD)	Penetration (%)
2001	9.1	2.15
2002	11.7	2.59
2003	12.9	2.26
2004	15.7	2.53
2005	18.3	2.53
2006	33.2	4.10
2007	40.4	4.00
2008	47.7	4.00
2009	47.7	4.60

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**** Source –Annual Reports of IRDAI 2009-10

Insurance density and penetration are two important parameters to state the accomplishments of the life insurance companies in India. Insurance density is measured as ratio of premium (in US Dollar) to total population. Insurance penetration is measured as ratio of premium (in US Dollar) to GDP in (in US Dollar).

In the 2001 the density was 9.1 and market penetration was 2.15%.The number of private life insurance companies was 12 whereas the LIC was the only company in the public sector. With entry of private sector life insurance companies the insurance penetration as well as density grew rapidly over a period of time. In the year 2009 density grew from 9.1 to 47.7 or whopping 525%. During the same period penetration grew from 2.15 to 4.60 a rise of 214% rise. The number of companies increased from 12 to 23 from 2001 to 2009. Thus, above data clearly suggests that entry of private life insurance companies contributed in higher density and penetration after post liberalization period.

However, it must be noted that both insurance density and penetration decreased in the year 2011 and 2012. Therefore, it would be interesting to access how the companies took efforts post 2009 period to expand the market for life insurance business in India. Comparison between the private life insurance companies and LIC is necessary to access the role of LIC and private insurance companies.

Following parameters are considered suitable.

1. Number of life insurance offices from 2009 to 2015
2. Geographical spread of Life Insurance Offices from 2009 to 2015
3. Market share of Life Insurers in India.
4. Number of life insurance offices from 2009 to 2015

Table 2

Insurer	2009	2010	2011	2012	2013	2014	2015
Private	8785	8768	8175	7712	6759	6193	6156

LIC	3030	3250	3371	3455	3526	4839	4877
Total	11815	12018	11546	11167	10285	11032	11033

**** Source –Annual Reports of IRDAI from 2009-15

Number of offices refers to the offices opened by the insurance companies with the permission of IRDAI. During the period 2009 to 2015 the private life insurance companies have experienced steady decline in the number of offices. From 8785 the number of offices decreased to 6156, the decline is of massive 30%. During same period from 2009 to 2015 the number of offices of LIC increased from 3030 in 2009 to 4877 in 2015. The number of offices in case of LIC grew by approximately 55%. Thus above mentioned data clearly indicates that LIC outpaced all private insurance companies in the establishment of the new offices. LIC responded to the competition from the private companies by maintaining rate of establishment of offices.

5. Geographical spread of Life Insurance Offices from 2009 to 2015

Table 3

Region	Private Insurance Companies				Life Insurance Corporation of India			
	2010	2011	2012	2013	2010	2011	2012	2013
Metro	897	769	741	703	347	363	365	368
Urban	1555	1428	1393	1519	550	560	563	614
Semi-urban	3607	3715	3822	---	923	953	970	---
Others	2709	2263	1756	4537	1430	1495	1557	2544

**** Source –Annual Reports of IRDAI from 2009-15

Geographical spread of life insurance offices refers to the distribution of offices in regions like metro, urban, semi-urban etc. Private life insurance companies have seen decline in the number of offices in metro and urban regions for a period 2010 to 2013 whereas growth in the number of offices is seen in semi-urban and other regions. During same period, LIC is seen increasing number of offices in all regions namely metro, urban, semi-urban and other regions not covered under other categories of region. LIC maintained its market position by expanding its office base. However, private life insurance companies lagged behind in major markets like metro and urban regions.

6. Market share of Life Insurers in %

Table 4

pre m i u m	LIC of India				Private Sector			
	Regular	Single	First Year	Renewed	Regular	Single	First Year	Renewed
2009-10	43.13	92.19	65.08	73.64	56.87	7.81	34.92	26.36
2010-11	56.71	81.26	68.84	70.48	43.29	18.74	31.16	29.52
2011-12	LIC of India				Private Sector			
	Regular	Single	First Year	Renewed	Regular	Single	First Year	Renewed
	64.58	80.58	71.85	69.91	35.42	19.42	28.15	30.09

2012-13	58.08	83.92	71.36	73.50	41.92	16.08	28.64	26.50
2013-14	60.88	86.72	75.47	75.34	39.12	13.28	24.66	24.66
2014-15	49.12	83.58	69.27	75.04	50.88	16.42	30.73	24.96

**** Source –Annual Reports of IRDAI from 2009-15

Above comparison between LIC and private life insurance companies relates to the market share of the insurance companies in different categories of the insurance policies. If the year 2009 is assumed to be the base year, LIC enjoys maximum market share in 4 categories and private sector companies, 23 together, enjoyed leadership only in one segment namely regular premium policies. In case of single premium policies LIC had maintained market share at around 85% throughout 2009 to 2015. In case of first year premiums LIC maintained market share at around 70% whereas share of private life insurance enjoyed a share of 30% approximately. Market share of renewal premiums segment indicates that LIC maintained a market share at around 73% whereas the private sector life insurance companies could maintain 23% of the share.

7. Conclusions

1. Liberalization of the insurance sector attracted private investment and the number of the insurance companies increased from 1 to 24. As a result both insurance density and penetration increased substantially. Liberalization process has helped in providing insurance protection to a larger part of the population. Higher density and penetration is socially important for highly populated nation like India.
2. Life insurance companies' particularly private companies were expected to expand their base by establishing new offices, however from the data analysis it is observed that LIC took the

lead in establishing new offices and number of offices of LIC grew throughout the period, private life insurance companies registered a decline in the number of offices.

3. As far as concentration in metro and urban areas is concerned private life insurance companies saw reduction in the number of offices. 23 private insurance companies operating in private sector had average of 39 offices in metro areas in 2010 which slipped to 31 in the year 31 but LIC increased number of offices from 347 to 368 in the same period. Therefore, to fight out competition LIC expanded number of offices at a faster rate than private life insurance companies.

4. If 4th important parameter market share for comparison between LIC and private life insurance companies is to be taken into account LIC has maintained above around 50% market share in regular premium policies but share of private life insurance companies has increased gradually to average 50%.

5. In case of single premium policies LIC has maintained above 80% share of the market which indicates that the insurance policyholders have full faith in government backed public sector insurer.

6. For first premium collection LIC enjoys 70% market share and market share of private insurers remained around 30%. Similar percentage is observed in case of renewed premiums.

7. From the above analysis it can be concluded that though the number of private insurance companies is significantly higher, they have not been able to compete with LIC successfully. Though insurance density and penetration doubled in the period 2009 to 2015, LIC remained the leader of the market in terms of the market share and distribution network.

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