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Research Paper

Trends in Growth of Life Insurance Industry in India Since Deregulation

Rimpy Kaushal
Associate Professor, Department of Economics, P.G.D.A.V. College (University of Delhi), India

ABSTRACT: *Life insurance industry has been through many structural phases, since it establishment in 1818. From a loosely-regulated market, run by private companies, it transformed into state-regulated natural monopoly in 1956, when under Life Insurance Corporation of India (Emergency Provisions) Act, 1956, 149 Indian and non-Indian life insurance companies were amalgamated into Life Insurance Corporation of India. Over the time, Indian life insurance sector has emerged as a dynamically growing sector. The purpose of this study is to highlight some important feature of life insurance industry, that has emerged during post-liberalization period.*
KEYWORDS: *liberalisation, market-concentration, micro insurance, rural and social obligations.*

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I. INTRODUCTION

The LIC operated life insurance business in a spirit of trusteeship, while securing the interests of policyholders, and documented a notable growth in terms of insurance coverage, fund mobilization and contribution in nation building by launching wide range of insurance policies and providing life cover to almost every section of the society. It spread the awareness about life insurance and promoted saving habits in the general public. After the implementation of New Economic Policy, in 1990-91 in India, the need for privatization of life insurance was also realized. In 1999, the life insurance sector was opened up for private companies. There has been observed tremendous growth in the life insurance business after deregulation. This study seeks to highlight key features of growth and development of life insurance industry during post liberalization period.

II. FROM NATIONALIZATION TO PRIVATIZATION

The IRDA Act, 1999, abolished the state-regulated monopoly of LIC, by allowing private insurance companies to transact life business in Indian insurance industry, along with foreign equity up to a limit of 26% of paid up capital through joint ventures. Process of liberalization boosted competition in Indian insurance industry, which consequently lead to expansion in the size of the market. Regulatory mechanism, installed by IRDAI, created a healthy economic environment for the growth and development of insurance industry. Insurance companies started offering diverse range of the product to cater according to the needs of the consumer. Some salient features of the life insurance industry during post-liberalization period has been discussed under following heads:

A. Growth of New Business

Structural reforms in Indian insurance sector boosted insurance business growth in terms of number of policies issued and premium earned. liberalization resulted in increase in geographical coverage due to expansion in information network. Total premium income almost doubled in next four years from Rs. 349 Billion in 2000-01 to Rs. 828.6 in 2004-05. This growth momentum continued in subsequent years and total premium income mounted to Rs. 6287.3 Rs. Billion in 2020-21. However this growth in total premium was primarily contributed by a simultaneous growth in first year premiums income, and in particular in single premium income [Table 1]. The rate of growth in first year premium peaked in 2006-07 by 95.04 % after that there can be observed a decline in the rate of growth in premium, which started reviving after 2010-11.

Table 1: Life Insurance Business in India Since 2000-01

PARTICULARS	2000-01	2004-05	2010-11	2014-15	2020-21
No of companies	5	14	23	24	24
No of branch offices	2199	3001	11546	11033	11060
No of Agents					
Individual Agents (in lacs)	-	12.13	25.82	20.68	24.55
Corporate Agents	-	2436	2930	689	978
Individual New Business					
Number of policies issued (in lacs)	-	262.1	481.5	259.1	281.3
First year premium (including single premium) (in Rs. Billions)	97.1	262.2	1263.8	1133.3	2787.0
Total Premium (in Rs. Billions)	349	828.6	2916.1	3281.0	6287.3
Market share of LIC	99.98	90.67	69.78	73.05	64.14
Individual Business-in-force					
Number of policies issued (in lacs)	-	-	3291.9	3263	3321.9
Sum Assured (in Rs. Billions)	-	-	38562.2	75530.5	175703.3
Life fund (in Rs. Billions)	1940.1	3662.2	8410.8	14953.1	29142.8
Total Benefits Paid (in Rs. Billion)	-	287.5	1421.5	2109.2	3987.7
Profit/Loss after Tax (in Rs. Billion)	2.91	-1.65	26.57	76.11	86.61

Source: Handbook on Indian Insurance Statistics, issued by IRDA, (various issues)

In year 2002-03 the share of LIC in total first year premium was 159.76 Rs. Billion (94.3%), whereas the share of all private companies was mere 9.66 Rs. Billion (5.7%). The premium of LIC increased to 1844.29 Rs. Billion (66.2%) in 2020-21, and that of private insurers increased to 942.07 Rs. Billion (33.8%). In similar manner, LIC issued 245.46 lac policies (96.7%) under new business in 2002-03 and private insurers issued 8.25 lac policies (3.3%). The number of policies declined to 20.97 Millions for LIC, but increased to 7.15 Million for private insurers [Table 1]. Thus it can be concluded that over the period, there has been a remarkable expansion in overall new life insurance business in terms of premium earned, but the share of LIC has been continuously shrinking.

B. Market Concentration of Life Insurance Industry

Prior to 2000, life insurance industry in India was largely dominated by LIC capturing almost 98 to 99 % share, leaving the rest for postal and state run insurance institutions. Entry barriers for private players in life insurance sector were abolished in 2000-01, but LIC continued to be the largest life insurance company for sometime, as its market share remained above 90 percent till 2004-05. Opening up of the market induced competition in insurance market and very soon new entrants capture a significant market share, leading towards a faster decline in market share of LIC from 90.67 % in 2004-05 to 69.78 % in 2010-11, thereafter there was observed an increase in its share till 2014-15. In 2020-21 LIC transacted 64.14 % of total life insurance business.

Market share of the private life insurance companies increased expeditiously, after opening up of the insurance market in India. In a study on assessing competition in life insurance industry post-liberalization in India for the period 2000-01 to 2015-16, Parida and Acharya (2016) used several measures of market concentration and concluded that the level of competition in Indian life insurance industry has been increasing in post-liberalization period. However, the life insurance market is still concentrated and their is ample scope for regulators to boost the competition in the industry.

C. Expansion in Coverage of Life Insurance Services

Besides, the surge in life insurance business, the post-liberalization period also witnessed a tremendous expansion in the coverage in terms of number of life insurers and branch offices. In 2000-01 only five companies were transacting life insurance business, but by 2012-13 this number increased to 24. The expansion in geographical coverage in this period is even more, from 2199 branch offices in 2000-01, throughout the country, the number of branch offices increased to 11060 in 2020-21. Out of 735 district in country LIC has offices in 669 districts (91%), whereas, private insurers have offices in 596 districts (81%). There are 49 districts in country with an absence of life office. Out of 28 states and 8 UTs, in 24 states, there is a life insurance office in all districts. Despite an expansion in coverage of life insurance services, the geographical distribution of life offices has been biased toward areas having population one lac or above (Tier-I). Out of 11060 life offices, 6561 offices (59%) has been located in Tier-I centers, 1294 in Tier-II offices (11.7%), 1829 in Tier-III (16.54%), 1144 in Tier-IV (10.34%), 152 in Tier-V (1.37%), and 80 in Tier-VI (0.72%)1.

D. Expansion of Distribution Channels

Entry of the new insurers along with technological advancements significantly contributed to the development of the life insurance sector. Over the period, there has been an expansion in distribution channels such as corporate agents, bancassurance, brokers, and others. The contribution of conventional distribution channel i.e. individual agents, has decreased significantly. In 2006-07, the contribution of individual agents to new business premium was 90.46%, which declined to 58.18% in 2020-21. For LIC the individual agents are still a dominant channel of distribution, but private insurers are also utilising other channels of distribution.

Another important channel of distribution that emerged over the period has been corporate agents-banks, i.e. bancassurance. The bancassurance channel facilitated the private insurers in accessing the market. In 2006-07, bancassurance contributed 5.57% in individual new business premium, which increased to 29% in 2020-21. For group business, the direct selling has been the dominant channel of distribution, procuring 90.86% premium during 2020-21. LIC has been procuring 97.49% new business premium through direct selling, whereas the contribution of this channel for private insurers has been 67.7%. Thus in both categories, the private insurers have been procuring business through new distribution channels. On the other hand, LIC has been still relying on the convention channels of distribution.

E. Profitability of the Life Insurance Sector

Given the capital intensive nature and long term investment requirement of insurance sector, its profitability become a crucial issue. The number of companies making profits also grew, but at a slower pace than expected. The global meltdown might also had been one of the factor responsible for slow pace of obtaining profitability for life insurers. The requirements of attaining reasonable levels of persistency ratio, and maintaining solvency margins might also have affected the profitability of the life insurance industry.

Thus, the life insurance sector has been evolving from a state-regulated sector, run by single entity to a profit oriented sector, running under competitive environment and gradually showing signs of attaining maturity. The Figure [1] clearly highlights the process of the development of life insurance industry in India. However, the impact of Covid-19 pandemic on the profitability of life insurance industry can also be seem in the figure.

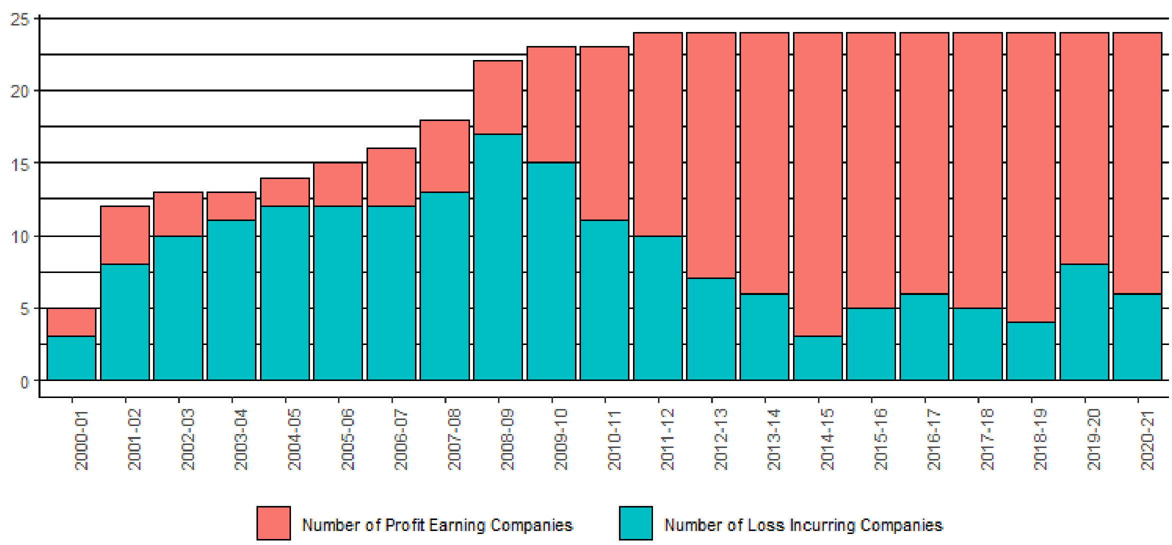
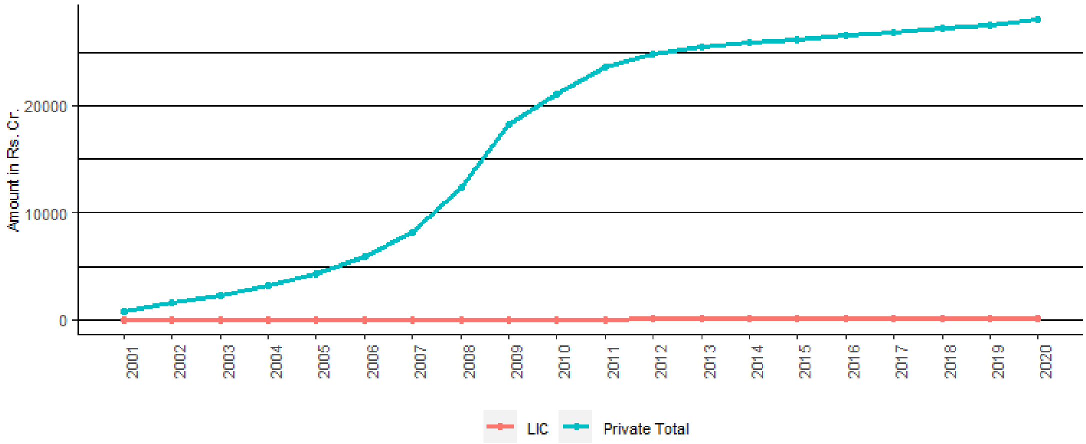


Figure 1: Profitability of the Indian Life Insurance Business

F. Capital Adequacy and Solvency Margins of the Life Insurers

Prior to privatization concerns were raised regarding capital adequacy and solvency margins of the private insurers. Insurance being capital intensive business, might face financial vulnerabilities at the initial phase of operation. It usually take 7-8 years or more, for a life insurance company to break-even.

Figure 2: Equity Share Capital of Life Insurers



Source: Handbook on Indian Insurance Statistics, issued by IRDA (various issues)

The adequate amount of paid-up capital for life insurers also enhances their risk absorption capacities. The IRDA Act, 1999, laid down a minimum capital requirement of Rs. 100 Cr. and a solvency margin of 150% for an insurer to enter into life business. LIC raised its equity share capital from 5 Rs. Cr. to 100 Rs. Cr. in 2011-12. Private life insurers added up their paid-up capital gradually. The total paid-up capital of life insurers was 8.64 Rs. Billion in 2000-01, which mounted to 3987.46 Rs. Billion in 2020-21. The Figure [2] presents a brief account of equity share capital of private insurers and LIC.

G. Investments of Life Insurance Sector

IRDA regulations 2001 specified three different funds to manage the assets from life business. Every life insurer shall invest and keep invested a life fund, of which Central Govt. Securities and other approved Govt. Securities consist 50%. All insurers shall invest an amount, not less than 15%, in social and infrastructure sector. Assets of pension business, general annuity and group business has to be invested in Govt. Securities (40%), and other approved investments. IRDA regulations 2001, made provisions for investing assets from unit linked life business in the marketable securities.

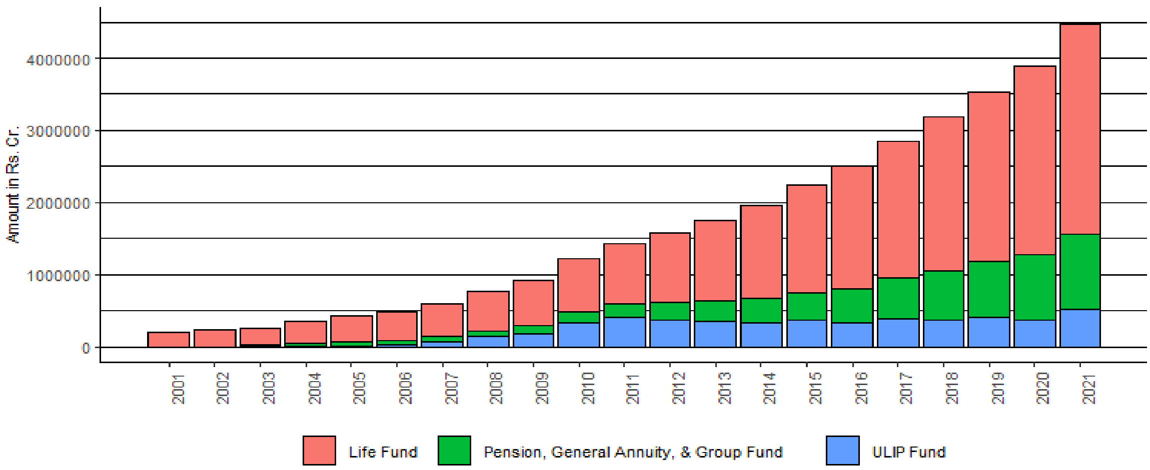


Figure 3: Assets of the Life Insurers

Source: Handbook on Indian Insurance Statistics, issued by IRDA (various issues)

The growth rate of total investments of the life insurers has been declining. The overall growth rate of investment of life insurers since 2000-01 has been 17.2%, whereas the growth rate for last decade has been 12.1%. In year 2020-21, life insurance sector invested Rs. 44799.73 Rs. Billions, of which, life fund consisted 29142.83 Rs. Billions (65.05%), pension, general annuity, and group fund consisted 10428.6 Rs. Billions

(23.28%), and ULIP fund contributed 5228.3 Rs. Billions (11.67%)8. The overall growth rate of investment during the year was 15.16%.

H. Rural and Social Sector Obligations of Life Insurers

IRDA (Obligations of Insurers to Rural and Social Sectors) Regulations, 2015, stipulated targets for the insurers, to be fulfilled every financial year. The insurers are required to underwrite life business in rural and social sectors, depending upon their year of commencement of insurance business. Since 2016-17 all the life insurers (LIC and private insurers) fulfilled their rural as well as social sector obligations. In 2020-21, all 23 life insurers issued 63.85 lac policies in rural areas (22.7%) of 281.27 lac total new policies underwritten in th year. LIC underwrote 21.4%, and private insurers underwrote 26.3% of their new policies in rural sector. During the same year life insurers insured 3.82 Cr. lives (14.9%) under social sector.

I. Life Insurance under Micro Insurance Scheme

Micro insurance can be defined as providing protection to low income people against specific risks arising out of uncertainties. Low income groups are relatively more vulnerable to certain perils like morbidity, mortality, accidents, and loss of property. After liberalisation of the insurance sector, Govt. realised the need to promote micro insurance market in India. In order to facilitate penetration of micro insurance market, IRDAI came up with its first set of Micro Insurance Regulations, in 2005.

Table 2: New Business Under Micro Insurance Scheme

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Individual Business						
No. of Policies (in Lacs) of which	**9.11**	**9.56**	**8.39**	**8.65**	**10.28**	**10.70**
LIC	4.52	4.81	5.65	6.18	8.59	9.92
Private	4.59	4.75	2.74	2.47	1.69	0.77
Premium (in Rs. Cr.) of which	**31.72**	**38.22**	**47.04**	**32.10**	**226.66**	**355.27**
LIC	19.54	15.87	17.87	20.91	222.09	352.93
Private	12.18	22.34	29.17	11.18	4.57	2.34
Group Business						
No. of Schemes of which	**4997**	**5199**	**1860**	**931**	**763**	**1002**
LIC	4844	4812	892	-	1	624
Private	153	387	968	931	762	378
No. of Lives Covered (in Lacs) of which	**292.55**	**322.47**	**589.03**	**1213.08**	**1407.29**	**1012.99**
LIC	226.04	229.65	373.16	-	57.96	42.62
Private	66.51	92.81	215.87	1213.08	1349.33	970.37
Premium (in Rs. Cr.) of which	**302.43**	**460.43**	**1386.37**	**3205.74**	**4426.45**	**4213.06**
LIC	254.26	340.08	631.85	-	34.55	114.53
Private	48.17	120.35	754.52	3205.74	4391.90	4098.53
No. of Agents of which	**27564**	**35200**	**52907**	**72857**	**90574**	**93748**
LIC	18574	19301	19183	19926	20907	21547
Private	8990	15899	33724	52931	69667	72201

The regulations were reviewed and amended many times. IRDA (Micro Insurance) Regulations, 2015 further allowed District Co-operative Banks, Regional Rural Banks to act as micro insurance agents. Table [2] presents an account of micro insurance business transacted by life insurers since 2015-16. In 2020-21, 18 life insurers, underwritten 38 micro insurance product, out of which, 14 products belong to individual category, and 24 to group category. Life insurance industry underwritten 10.70 lac policies under individual new business with a premium of 355.27 Rs. Cr. In 2020-21. There can be seen a growth in the micro insurance business over the

period, but still the extent and coverage is still very low. As per a study by Singh, Prabhat, and Srinivasan (2020) the micro insurance penetration is still very low in India.
Thus, the features of the life insurance industry after liberalization indicate that over the time, competition has enhanced the functioning, size, quality of product delivery, profitability, and coverage of the life insurance market.

III. CONCLUDING REMARKS

After the implementation of New Economic Policy in 1990-91, a need to privatise the life insurance business was also realized in order to enhance efficiency and competition of the insurance sector. In post-liberalization period, entry of private players boosted supply of insurance products and their variety. Over the time, Indian life insurance industry attained maturity and gained strength. Life insurance market in India transformed from supply driven market to demand driven market, with a large number of products and competitive economic environment. However, there is always a scope for advancements. Therefore, it is essential to understand the dynamism of Indian insurance market and to prepare it for global corporate world to ensure future growth.

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