

A Comparative analysis of Public and Private Sector Life Insurance Companies in India during Post Liberalization Era

P. Divakara Rao

Lecturer in Commerce, Govt Degree College, Perumallapuram, East Godavari Dist.

ABSTRACT

Insurance is a financial risk management tool in which the insured transfers a risk of potential financial loss to the insurance company that mitigates it in exchange for money compensation known as premium. Insurance sector in India is one of the fastest growing sectors in the economy. The insurance sector in India has completed a full circle from an open competitive market to nationalization and back to a liberalized market once again. With the entry of private life insurance companies in the year 2000-01, the competition is becoming tougher day by day. The objective of present study is to compare public and private sector life insurance companies in India in the post liberalization era.

Keywords: public sector, private sector, life insurance, post liberalisation.

Introduction:

Life insurance is essential for everyone in the world, as it offers family a vital safety net in case of insured persons' untimely demise. It preserves the family's financial independence and enables them to maintain their standard of living without having to compromise on essential needs. Life insurance policies act as a protective shield in case of an unexpected incident to ensure that your loved ones are not left unsecured and can continue to thrive with adequate financial support. The importance of life insurance is evident as an income replacement tool (Jagadeesh Gokhale, 2002)¹. In the unfortunate event of policy holder's absence, the proceeds from the life insurance can serve as a vital lifeline for his/her dependents. Life insurance provides a safety net to the surviving family members and helps them maintain their standard of living, cover essential expenses and pursue long-term financial goals. It can be used to pay for loan repayments, educational expenses or daily living costs.

Indian Insurance industry has big opportunity to expand, given the large population and untapped potential. The insurance market in India has witnessed dynamic changes including entry of a number of global insurers. Most of the private insurance companies are joint ventures with recognized foreign institutions across the globe. Saturation of markets in many developed economies sector in India through calibrated policy initiatives.

The Indian Insurance Industry has undergone several changes in trends and policies in the year 2010. The US\$ 41 billion industry is considered the fifth largest life insurance market, and is growing at a

¹ Jagadeesh Gokhale (2002). The adequacy of life insurance. research dialogue, issue no. 72 July 2002

rapid pace of 32-34% annually, according to the Life Insurance Council. State-Owned Life Insurance Corporation (LIC) of India has recorded about 37% growth in its new business premium to US\$ 15.1 billion during April to January FY 2010, the data from IRDA stated. Overall, 23 life insurers in the country collectively mopped US\$ 21.35 billion as new first year premium during the period, a 26% increase from US\$ 17 billion during April-January 2009-2010. Out of this, the 22 Private life insurers together accounted for US\$ 6.26 billion worth of new business in April-January 2010-11, compared to US\$ 5.91 billion in the year ago period, a growth of about 6%. Among the private life insurance players, SBI Life saw its premium collections from new business grew by 9% to US\$ 1.1 billion during the period, while ICICI Life's premium collections from new businesses grew to US\$ 1.15 billion April-January 2010-11, from US\$ 964 million during the same period last year.

Life Insurance in Post liberalisation

The crisis in 1991 served as a catalyst for the government to initiate a more comprehensive economic reform agenda, including Liberalisation, Privatisation and Globalisation referred to as LPG reforms. Therefore, in the year 1993 the Government of India set up a committee under the chairmanship of RN Malhotra, former Governor, Reserve Bank of India, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 with the recommendations that the private sector be permitted to enter in the insurance industry. They further recommended that foreign companies may also be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners. Resultantly, the Indian Parliament in 1999 passed Insurance Regulatory and Development Authority Act accepting the recommendations of the Malhotra Committee and consequently in April 2000, the IRDAI was constituted as an autonomous body to regulate and develop insurance industry in India. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice, lower premiums ensuring financial security of the insurance market. Following by the recommendations of Malhotra committee report in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted to regulate and develop the insurance industry. The IRDA opened up the insurance market in August 2000 for the private players.

Review of Literature:

Amish Patel and Dwivedi (2019) in their research journal on "A Comparative Study of Public and Private Sector Life Insurance Companies in India: Post Liberalization Span" noticed that insurance is a financial risk management tool in which the insured transfers a risk of potential financial loss to the insurance company that mitigates it in exchange for money compensation known as premium. Insurance sector in India is one of the fastest growing sectors in the economy. The insurance sector in India has completed a full circle from an open competitive market to nationalization and back to a liberalized market once again. With the entry of private life insurance companies in the year 2000-01, the competition is becoming tougher day by day. The objective of present study is to compare public and private sector life insurance companies in India in the post liberalization span.

Chandan (2018) in a study on "Growth and Expansion of Life Insurance Industry in India: A Comparative Study of Public and Private Sector" reveals that the purpose of reforms in Indian economy especially in Indian Life insurance sector was to make the economy more market oriented. Due to these reforms the insurance sector was opened to private players. As a result new private life insurers started

their business in Indian life insurance sector and a big chunk of life insurance business gone in the hands of private players and the monopoly of public sector player (LIC) was finished. In the light of widening of the life insurance market there is a need to conduct fresh research on growth and expansion of life insurance industry in India. The present study reveals that the private sector shows more growth as compared to public sector in terms of total premium during the period of the study. However, both public and private sector shows negative growth in number of policies issued. Moreover, the life insurance industry expanded itself mainly in areas other than metro and urban areas. It is suggested in the study that IRDA should start mass campaign to educate people regarding the need of life insurance which will help the life insurance companies to cover untapped market.

Sumit (2017) analysed profitability performance of life insurance companies in India using seven variables. Net Premium, income from investments, underwriting income, return on assets, combined ratio, solvency ratio and profit after tax were taken as variables. ANOVA was used to test the significance of variance in profitability of various insurers. The study found that among the private sector life insurance companies, the average net premium for the last 5 years was found highest in case of ICICI Prudential. The CAGR of investment income was found the highest in case of ICICI Prudential during the recent 5 years. The CAGR of underwriting income has declined in case of every private sector life insurance company during recent 5 years. The study concluded that many of the life insurers in India are required to improve their underwriting income for sustainable development. They need to have control on expense ratio and other outflows so as to register profits.

Vikas Gairola (2016) compared public and private life insurance companies in post liberalization era. The study compares public and private sector life insurance companies in terms of new policies issued, total premium income and market share. The study shows that private life insurers put efforts to improve its performance year after year and affected the LIC in many ways. To overcome and compete with this situation LIC introduced new and attractive insurance plans, put efforts for better customer relationship management and effective advertising. There is very huge potential in life insurance sector as the population of India is very huge and still there is untapped life insurance market.

Krishna (2015) made a comparative study of public and private life insurance companies in India. For the purpose market share, fresh business premium, number of new policies issued and total life insurance premium compared. In terms of all parameters LIC is dominating. The study concluded that the insurance companies have to ensure quality products at a competitive price, companies can lower the price of the product by reducing the cost. Their survival depends upon their performance in profitability, productivity, efficiency and service quality.

Parmasivan (2015) made a comparative study of public and private life insurance companies in India. To measure financial performance solvency ratio, current ratio and debt equity ratio have been calculated. The study indicates that LIC continues to dominate the sector. Private sector insurance companies used the new business channels of marketing when compared with LIC. Selling more unit-linked plans helps private insurers grab market share from LIC. Solvency ratio and lapsation ratio of private insurers was much better than LIC. Servicing of death claims was better in case of LIC as compared to private life insurers.

Hymavathi Kumari (2013) made performance evaluation of Indian life insurance industry in post liberalization by using various ratios. The study concluded that since opening up of Indian insurance sector for private players, India has reported increase in both insurance penetration and density. There is huge scope for life insurance in India. The total assets to earned premium ratio, investment

income to earned premium ratio and investment income to total investment ratio expresses the financial solidity of an insurer and discloses the efficiency in investment decisions.

In this background the present study is made to understand the impact of liberalization on life insurance business in India. Thus, this study analyses how liberalization had make impact on life insurance sector.

Objectives:

The main objective of the study is to examine the impact of liberalization on life insurance business in India. The secondary objective is to compare the performance of public and private life insurance companies in India in post liberalization era.

Methodology:

This research is descriptive as well as exploratory research. The data used for this research is secondary in nature. The relevant and required data has been collected from journals, dailies, annual reports, magazines and websites of selected companies and through various search engines. At the end of March 2021, there are 24 life insurance companies operating in India, including a public sector company named Life Insurance Corporation of India and remaining 23 private sector companies competing with LIC for Life Insurance Business in India. All private and public sector life insurance companies in India were selected for the study. Thus, from the companies selected for the research work are one Life Insurance Companies in India from public sector and 23 insurance companies from Private Sector are considered.

Insurance Penetration and Density in India

The potential and performance of the insurance sector is globally assessed by two parameters. These are Insurance Density where Life Insurance Density is defined as the ratio of premium underwritten to the total population and Insurance Penetration by Life Insurance Penetration is defined as the ratio of premium underwritten to the gross domestic product.

Data analysis

Table 1-Insurance Penetration and Density an India

Year	Life		Non-life		Total	
	Density (usd)	Penetration (%)	Density (usd)	Penetration (%)	Density (usd)	Penetration (%)
2001-02	9.10	2.15	2.40	0.56	11.50	2.71
2002-03	11.70	2.59	3.00	0.67	14.70	3.26
2003-04	12.90	2.26	3.50	0.62	16.40	2.88
2004-05	15.70	2.53	4.00	0.64	19.70	3.17
2005-06	18.30	2.53	4.40	0.61	22.70	3.14
2006-07	33.20	4.10	5.20	0.60	38.40	4.80
2007-08	40.40	4.00	6.20	0.60	46.60	4.70
2008-09	41.20	4.00	6.20	0.60	47.40	4.60
2009-10	47.70	4.60	6.70	0.60	54.40	5.20
2010-11	55.70	4.40	8.70	0.71	64.40	5.10

2011-12	49.00	3.40	10.00	0.70	59.00	4.10
2012-13	42.70	3.17	10.50	0.78	53.20	3.96
2013-14	41.00	3.10	11.00	0.80	52.00	3.90
2014-15	44.00	2.60	11.00	0.70	55.00	3.30
2015-16	43.20	2.72	11.50	0.72	54.70	3.44
2016-17	46.50	2.72	13.20	0.77	59.70	3.49
2017-18	55.00	2.76	18.00	0.93	73.00	3.69
2018-19	55.00	2.74	19.00	0.97	74.00	3.70
2019-20	58.00	2.82	19.00	0.94	77.00	3.76
2020-21	59.00	3.2	19.00	1.00	78.00	4.20

In its annual report of the year 2020-21, IRDA states that during the first decade of privatization of life insurance sector, the sector has reported a consistent increase in insurance density from 9.1 USD in 2001 to 55.7 USD in 2010. In 2013, it decreased to 41 USD; however it slowly increased to 59.00 USD in 2020-21.

The life insurance sector has reported increase in insurance penetration from 2.15% to 4.60% in 2009. In 2014, it decreased to 2.60% however it slowly increased to 3.2% in 2020-21.

Globally, the share of life insurance business in total premium was 44.50%. However, the share of life insurance business for India was very high at 75.24%. In life insurance business, India is ranked 10th among the 88 countries. India’s share in global life insurance market was 2.90% in 2020-21.

However, during 2020-21, the life insurance premium in India increased by 0.6%, where as global life insurance premium decreased by 3.1 per cent. These data shows the development of Life Insurance in India. The future looks good for life insurance sector with changes in regulatory framework. India with 3.2% penetration rate in the life insurance sector offers greater penetration potential when compared to global average of 3.3%.

Comparison of Public and Private Life Insurance Companies in India

Before liberalization LIC was the only dominant player in life insurance. The IRDA opened up the insurance market in August 2000 for the private players. Comparison of public and private life insurance companies is made in terms of (A) market share,(B) number of new policies issued and (C) total life insurance premium.

a) Market Share of Life Insurers Based on Total Premium

Market share is an important indicator of growth and performance of life insurance companies. It shows total sales of a company for a particular time period. The table shows market share of public and private life insurance sector from the period of 2000-01 to 2020-21.

Table 2: Total Premium Share of the LIC and Private Sector in Industry

Year	LIC	PRIVATE	INDUSTRY
2000-01	99.98	0.02	100
2001-02	99.46	0.54	100
2002-03	97.99	2.01	100
2003-04	95.32	4.68	100
2004-05	90.67	9.33	100
2005-06	85.75	14.25	100

2006-07	81.9	18.1	100
2007-28	74.4	25.6	100
2008-09	70.92	29.08	100
2009-10	70.1	29.9	100
2010-11	69.77	30.23	100
2011-12	70.67	29.33	100
2012-13	72.7	27.3	100
2013-14	75.39	24.61	100
2014-15	73.05	26.95	100
2015-16	72.61	27.39	100
2016-17	71.81	28.19	100
2017-18	69.36	30.64	100
2018-19	66.42	33.58	100
2019-20	66.22	33.78	100
2020-21	64.14	35.86	100

The table indicates that the market share of LIC has been constantly decreasing from 99.98% in 2000-01 to 69.77% in 2010-11, there was nominal increase from 2011-12 to 2013-14 and once again it constantly decreasing to 64.14 in 2020-21.

On the other hand the market share of private life insurers has been increasing from 0.02% in 2000-01 to 30.23% in 2010-11, there was nominal decrease from 2011-12 to 2013-14 and once again it increased to 35.86 per cent 2020-21.

b) Number of New Life Insurance Policies Issued by Life Insurers

The number of new life insurance policies issued by life insurance companies is also an important pointer of growth and performance of life insurance companies. The table shows the number of new life insurance policies issued by public and private life insurance companies from the period of 2002-03 to 2020-21.

Table 2: Number of New Life Insurance Policies Issued by Life Insurers

Year	Public sector	Private sector	Total
2002-03	245.46	8.25	253.71
2003-04	269.68	16.59	286.27
2004-05	239.78	22.23	262.11
2005-06	315.91	38.71	354.62
2006-07	382.29	79.22	461.52
2007-08	376.13	132.62	508.74
2008-09	359.13	150.11	509.23
2009-10	388.63	143.62	532.25
2010-11	370.38	111.14	481.52
2011-12	357.51	84.42	441.93
2012-13	367.82	74.05	441.87
2013-14	345.12	63.60	408.72
2014-15	201.71	57.37	259.08
2015-16	205.47	61.92	267.38

2016-17	201.32	63.24	264.56
2017-18	213.38	68.59	281.97
2018-19	214.04	72.44	286.48
2019-20	218.96	69.50	288.47
2020-21	209.75	71.52	281.27

The number of new policies shows increase and decrease from 2002-03 to 2020-21. The table indicates that in terms of new policies issued LIC has sold maximum new policies in 2009-10. On the other hand the private life insurers have sold maximum new policies in 2008-09.

c) Total Life Insurance Premium

Table 3: Year-wise Life Insurance Premium acquired by public and private sector companies

Year	Public sector	Private sector	Total
2000-01	34892.02	6.45	34898.47
2001-02	49821.91	272.55	50094.46
2002-03	54628.49	1119.06	55747.55
2003-04	63533.43	3120.33	66653.75
2004-05	75127.29	7727.51	82854.80
2005-06	90792.22	15083.54	105875.76
2006-07	127822.84	28253.00	156075.84
2007-08	149789.99	51561.42	201351.41
2008-09	157288.04	64497.43	221785.47
2009-10	186077.31	79369.94	265447.25
2010-11	203473.40	88131.60	291605.00
2011-12	202889.28	84182.83	287072.11
2012-13	208803.58	78398.91	287202.49
2013-14	236942.30	77359.36	314301.66
2014-15	239667.65	88433.49	328101.14
2015-16	266444.21	100499.02	366943.23
2016-17	300487.21	117989.26	418476.62
2017-18	318223.20	140586.24	458809.44
2018-19	337505.07	170626.96	508132.03
2019-20	379389.6	193520.59	572910.19
2020-21	403286.55	225444.48	628731.04

The table indicates that the total premium of LIC was 34892.02 crores in 2000-01, it increased to 403286.55 crores in 2020-21. Only in 2011-12 it decreased from the previous year. On the other hand the total premium of private life insurers was 6.45 crores in 2000-01, it increased to 225444.48 crores in 2020-21. There was a decrease in total premium from 2012-13 to 2013-14.

Findings

1. Before IRDA opened up the insurance market for the private players, LIC is the only company in life insurance business. The total number of life insurance companies increased to 24 in 2018 especially in private sector to 23. This is an eminent growth of life insurance business in India due to liberalization.

2. Post liberalization, India has reported increase in both life insurance density and penetration. India with 2.76% penetration rate in life insurance sector offers greater penetration potential when compared to global average of 3.30% Life insurance density was 59.00(USD) in 2020-21 which is very low as compared to other developing and developed countries. So there is a huge scope for growth in coming years.
3. The market share of private life insurance companies on the basis of total premium has increased from 0.02% in 2000-01 to 35.86% in 2020-21. It shows the capability of private life insurers success in capturing the market share from LIC. LIC is still the market leader.
4. The number of new life insurance policies issued by private sector has increased from 8.25 lakhs to 71.52 lakhs in 2020-21. In case of LIC this number has decreased from 245.46 lakhs to 209.75 lakhs. The sales growth in new life insurance policies by private sector was due to sales of unit linked products.
5. The total premium income of life insurance sector has increased from 34,898.47 crores to 628731.04 crores in 2020-21. This indicates tremendous growth in life insurance sector after the entry of private players.
6. The size of life insurance market increased with growing economy and increase in per capita income. These findings proved that liberalization has made a significant impact on life insurance industry.

Conclusion and Suggestions

The life insurance market has been enlarged after liberalization, but still a vast Indian lives have been uninsured. India is a huge country with 65% people living in rural areas and 35% below poverty line require risk preventing social schemes with good quality. So it is required to inspect that up to what extent the life insurance industry is serving the requirements of the customers before and after the sale of policies. It is also required to examine up to what extent creative and inventive products are introducing to improve the performance of life insurance sector in India.

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