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A COMPARATIVE STUDY OF PUBLIC AND PRIVATE LIFE INSURANCE COMPANIES IN POST LIBERALISATION ERA IN INDIA

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INTRODUCTION

Life is full of risks. Being a social animal and risk averse, man always tries to reduce risk. An age-old method of sharing of risk through economic cooperation led to the development of the concept of 'insurance'.

Insurance may be described as a social device to reduce or eliminate risk of loss to life and property. Insurance is a collective bearing of risk. Insurance spreads the risks and losses of few people among a large number of people as people prefer small fixed liability instead of big uncertain and changing liability. Insurance is a scheme of economic cooperation by which members of the community share the unavoidable risks. The risks which can be insured against include fire, the perils of sea, death, accidents, and burglary. The members of the community subscribe to a common pool or fund which is collected by the insurer to indemnify the losses arising out of risks. Insurance cannot prevent the occurrence of risk but it provides for the losses of risk. It is a scheme which covers large risks by paying small amount of capital. Insurance is also a means of savings and investment.

Insurance can be defined as a legal contract between two parties whereby one party called the insurer undertakes to pay a fixed amount of money on the happening of a particular event, which may be certain or uncertain. The other party called the insured pays in exchange a fixed sum known as premium. The insurer and the insured are also known as assurer, or underwriter, and assured, respectively. The document which embodies the contract is called the policy.

An insurance policy is a special type of contract. It is synallagmatic and aleatory in character. A synallagmatic contract is one by which each of the contracting parties binds himself to the other. It is aleatory because the insurer's obligation to pay a loss (claims) is distant and often uncertain, while the insured must pay a fixed premium during the policy period. Thus while the sacrifice (premium) is certain and immediate, the benefits (claims) are distant and contingent for the insured. This makes it a unique financial product, requiring a broader understanding of pure and speculative risks to which an individual or enterprise is exposed, in order to take an informed buying decision.[1]

The insurance companies are distinct financial institutions (intermediaries) in the financial system:

- Insurers collect insurance premiums by issuing insurance policies which are debt instruments (claims) and invest these premiums in financial assets and markets to generate cash flows to pay future claims. Thus, insurers are liability-driven financial intermediaries.
- Unlike other intermediaries, insurers have to hold risk capital or solvency capital to ensure their obligations to the insured. Insurers demonstrate their financial strength to the insured by holding risk capital which provides a cushion against unexpected losses. Another unique feature of the industry is the distinct principles such as uberrimae fidei, indemnity, subrogation, causa proxima and insurabel interest of which underwriters (insurers) are more aware of than the insured.
- Also, insurance pricing differs from the pricing of other products. In case of other products, the producer knows the costs of production and the profit he wants to earn. Insurance is a different activity from most other kinds of business activities. Insurers are in the business of risk. It is very difficult to price risk. In case of insurance, the actual cost of risk coverage can be known only at the expiry of the contract or when the event occurs whereas the premium rate is determined at the beginning of the contract. The determination of premium rate involves a lot of statistics, use of probability theories and study of demographic trends and market trends.
- Marketing of insurance products is a challenging task. Insurance is sold, never bought. The seller (agent) should possess expert knowledge of the insurance products, have the skill in making people listen carefully and strive to establish a long-term relationship with the clients to get repeat business. Only those who are open to new ideas, able to plan their activity well and willing to face challenges can succeed in marketing insurance products.[2]

The Insurance sector plays a vital role in the process of the economic development of any economy. It has a positive correlation with economic development in an economy. It acts as mobilizer of savings, as financial intermediary, as promoters of the investment actives, as stablizer of the financial markets and as a risk manager. Insurance service leads to efficiency and productive allocation of capital resources, facilitate growth of trade and commerce. OECD has observed, "Insurance companies have been able to accumulate large amount of money from across a large proportion of the population. By pooling these savings from many small investors in to large accumulations of investible funds, insurance companies have been able to invest not only in a wider range of investments than individuals would have been able to invest in directly themselves but have also been able to invest in larger scale and more risky investment opportunities which will be more benefical to the economy."[3]

The Govt. of India implemented the most important recommendation of the Malhotra Committee by setting up IRDA through parliament, the IRDA Act in 1999 to ensure regulation, development and growth of insurance business in india.[4] There is need to regulate the insurance sector as insurance in a long-term agreement between the insurance companies and the public. Obviously regulation does not emphasize only for enforcing of laws, but prudential business norms are developed for the development of the industry. IRDA has been given a dual role of independent regulator and development organization as it is not prevalent in rest of world that regulator and development organization as it is not prevalent in rest of world that regulator is entrusted with the development, so that a vibrant and competitive financial system is created with expansion of insurance market as to vital object of liberalization of the sector is set out and also expected to provide a playing level field between private and public players.[5]

Competition in the market has led to exploration of new innovative and diversified channels of distribution for capturing wider market which will provide cost-effective services to policy holders. These alternative channels will also build strong and effective customer relationship. Entry of private players in the market has explored new channels of the lines of developed economics. Besides, traditional intermediaries as corporate agent, brokers, and new methods like

- Bancassurance
- Direct marketing
- Telemarketing
- Independent financial advisors and
- Sale of policy through internet would play a crucial role in penetrating the insurance market in India. Cooperative societies, village Panchayats and post offices have been identified to tap the rural market segment.

Innovation in the insurance sector can be attributed to initiative taken by private companies. Especially, innovation in the products of life insurance private companies can be seen. As these companies have joint ventures with the companies working in the US, UK, Germany, Canada, Australia and France and follow the market practices of these companies. Unit-linked policies, policy for non-smokers with less premiums, for village artisans, for children with the life of parents, travel insurance policy for higher studies in abroad, weather insurance schemes, group and personal accidents are few new products. LIC has launched 'Golden jubilee policy' for the masses to mark its 50th year celebrations aimed to offer life cover at an affordable rate and with different riders.

Insurance sector has been playing a vital role as institutional investors in capital formation by channeling the saving of millions of people thereby increasing the productivity of economy. The liberalization process has led the strong emergence of foreign and private players in the insurance market which has facilitated the entire approach of insurance towards their customers to spread insurance scenario, investment in IT is strategically important to increase

- Profitability,
- Operational efficiency and
- Developing and maintaining customer relationship.

Health insurance introduced in 1998 is still at a nascent stage in India though it comes third rank after motor and fire insurance in terms of collection of premiums. The business of health insurance has a bright future in India which offers immense market potential as a marginal percentage of population enjoys various health schemes of insurance. There lies a large potential for rural insurance market as rural india accounts almost 74 percent of the country's population. But, it is pertinent to note that new players are not showing interest for the development or expanding rural insurance as viable business venture, rather are meeting statutory requirement.

STATEMENT OF THE RESEARCH PROBLEM

In the coming years, insurers would face the most difficult challenge to provide returns as compared to other financial options. Return on investments are going down, therefore, there is pressure on insurance companies to produce better operational results to safeguard the interest of insuring public. In the post-liberised era, the sector faces the challenge from customer expectations as they are more price sensitive and are looking for better value and good services. The outcome of privatization process over a period of seventeen years has been positive and be identified as the beginning of new era with many heights to achieve, but there is an urgent need to adopt professionalised approach for bright future.

As a global sweet spot, India attracts the attention of every major insurer. The country started in 20th place in the global insurance league table when the market opened to private players in 2000 and it moved up to 11th place in 2010. Since 2000, a total of 22 life insurance companies have set up operations in India. Most major multinational insurers are represented through joint ventures (the only option for foreigners), and all but two new players are licensed as joint ventures.[19] Life Insurance Corporation of India captures market share of 72.1 percent life insurance business in India and remaining market is shared by

- ICICI pru. life
- SBI Life
- HDFC Life
- Bajaj Allianz
- Reliance Life
- Birla Sun life
- Tata AIG
- Kotak Mahindra etc.

The insurance sector, along with other elements of marketing as well as financial infrastructure, have been touched and influenced by the process of liberalization and globalization in India. The customer is the king in the market with the entry of private players, the competition in belonging intense. In order to satisfy the customers, every company is trying to implement new creations and innovative product characteristics to attract customer. Total foreign direct investment is insurance companies' stands as close to Rs. 51 billion (about US $ 1.1 billion).[20] Against this background, analysis of the performance of public and private life insurance companies in india needs attention.

Over the last 10 years, the penetration of non-life insurance sector in the country remained steady in the range of 0.5-0.8 per cent. However, the insurance density of life insurance business had gone up from USD 9.1 in 2001 to the peak at USD 55.7 in 2010. During 2015, the level of life insurance density was USD 43.2. Similarly, the life insurance penetration Surged from 2.15 percent in 2001 to 4.60 per cent in 2009. Since then, it has exhibited a declining trend. However, there was a slight increase reacling 2.75 per cent in 2015 when compared to 2.6 per cent in 2014.[21]

Table: INSURANCE COMPANIES OPERATING IN INDIA LIFE INSURERS*[22]

Publice Sector	Private Sector
1. Life Insurance Corporation of India.	1. Aegon Life Insurance Co. Ltd. 2. Aviva Life Insurance Co. India Ltd. 3. Bajaj Allianz Life Insurance Co. Ltd. 4. Bharti AXA Life Insurance Co. Ltd. 5. Birla Sun Life Insurance Co. Ltd. 6. Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd. 7. DHFL Pramerica Life Insurance Co. Ltd. 8. Edleweiss Tokio Life Insurance Co. Ltd. 9. Exide Life Insurance Co. Ltd. 10. Future Generali India Life Insurance Co. Ltd. 11. HDFC Standard Life Insurance Co. Ltd. 12. ICICI Prudential Life Insurance Co. Ltd. 13. IDBI Federal Life Insurance Co. Ltd. 14. India First Life Insurance Co. Ltd. 15. Kotak Mahindra Old Mutual Life Insurance Ltd. 16. Max Life Insurance Co. Ltd. 17. PNB Met Life India Insurance Co. Ltd. 18. Reliance Nippon Life Insurance Co. Ltd. 19. Sahara India Life Insurance Co. Ltd. 20. SBI Life Insurance Co. Ltd. 21. Shriram Life Insurance Co. Ltd. 22. Star Union Dai-ichi Life Insurance Co. Ltd. 23. TATA AIA Life Insurance Co. Ltd.

*** As on 31st March, 2016**

Source: Annual Report 2015-16, Insurance Regulatory and Development Authority of India', p. 155

At the end of March 2016, there are 54 insurers operating in India of which 24 are life insurers, 24 are general insurers and 5 are health insurers exclusively doing health insurance business. In addition, GIC is the sole national reinsurer. The present study is undertaken to make comparative and analytidcal study of life insurance players in Indian context.

OBJECTIVES OF STUDY

Our study attempts to:

1. Outline the structure of Life Insurance industry in India.
2. Compare the performance of public and private life insurance companies in India.
3. Recommend for changes in the structure of the industry and the policy framework.
4. Suggest to improve the functioning of the LIC in the changing economic environment.
5. Suggest for strengthening and modernizing the regulatory framework of insurance sector,
6. Consider any other related problems.

HYPOTHESIS

Our Study is based on the following Hypotheses.

Hypothesis 1: There is no significant difference in the growth rate of fresh business premium between public and private life insurance companies.

Hypothesis 2: There is no significant difference in the growth of number of new policies issued among public and private life insurance companies.

Hypothesis 3: There is no significant difference in the growth rate of total life insurance premium anong public and private life insurance companies.

RESEARCH METHODOLOGY

The present study is analytical in nature and analyses about what we have done so far to tackle the development of life insurance segment in India as well as which are the areas where we need to do more.

Data and information for our study is primarily collected from secondary sources. However, some sort of primary data has been collected through interviews with the managerial personnel, beneficiary parties, governmental authorities etc. The secondary data has been collected from the publications of LIC and IRDA, various journals and magazines, Data published by the Central Government etc. Web based information has also been used.

The data thus collected have been analysed by using suitable statistical and mathematical tools for specific interpretation. An attempt has been made to analyse whether there is any significant difference in the growth of fresh business premium, number of new policies issued and total life insurance premium among public and private life insurance companies or not. For this purpose, Mann - Whitney - U - test was applied (a non - parametric test). It makes it possible to work with very small samples.

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