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LIFE INSURANCE INDUSTRY IN INDIA - AN OVERVIEW

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Abstract

At present Indian insurance is a flourishing industry, with several national and international players. The insurance sector was opened up for private participation on the ground that in spite of enormous contributions made by the public sector to expand the coverage and spread awareness about insurance, the interests of the consumers would be better served. A new era began in the Indian insurance sector, with the passing of the Life Insurance Act of 1912. Life Insurance is the fastest growing sector in India, since 2000 as Government allowed Private players and FDI up to 26 per cent. Life Insurance in India was nationalized by incorporating Life Insurance Corporation (LIC) in 1956. In 1993 the Government of India appointed RN Malhotra Committee to lay down a road map for privatization of the life insurance sector. After that the IRDA bill in parliament was passed in Dec.'99. As per the provisions of IRDA Act, 1999, the Insurance Regulatory and Development Authority was established on 19th April, 2000 to protect the interests of policyholders and to regulate, promote and ensure orderly growth of the insurance industry. In-spite of this significant status of insurance sector in India, nearly 80 percent of population is without life insurance cover, health insurance and non-life insurance. In other words, insurance coverage is far below the international standards. However, there is an immense growth potential for insurance sector in India. Further, it indicates that there is a huge potential for insurance business in the country.

At this juncture, it is required to evaluate the performance of life insurance industry in India. The present study is mainly aimed to investigate the operational, financial and managerial performance for a period of ten years i.e. from 2001-02 to 2010-11.

Key words: *Insurance, Risk.*

Introduction

The business as a socio-economic activity is, therefore planned to be bailed out through the system of assurance by the other party. Insurance in legal sense 'it is a contract by which one party in consideration of the price paid to him proportionate to the risk provides security to other party that he shall not suffer loss, damage or prejudice by the happening of certain specified events. Insurance is meant to protect the insured against uncertain events which cause disadvantage to him.

Objectives of the Study

Broadly the present study general objective is to examining the impact of life insurance business in India in terms of established operating business parameters. In addition to the general objectives, the following are the specific objectives of the study:

- To examine the structure and review of banking and insurance industry in India
- To study the performance of life insurance industry in India during the study period.
- To draw policy conclusions on the basis of the findings and to make suggestions for enhancing the present status of the Life Insurance business in India.

Data Collection and Methodology

The study relates to the "Life Insurance Industry in India –An Overview", employs only secondary data. The secondary data have been collected from the relevant annual reports of Life Insurance Company Limited, Handbook of IRDA (various issues), statistical year book of LIC, Yogakshem and various news bulletins of LIC. The annual reports of IRDA and other related literature available both as hard copy and on the net have been consulted for collection of data.

The performance of life insurance industry is calculated by way of percentages in respect of premium income, new policies issued number of individual agents, corporate agents, insurance penetration and density, equity share capital, total income and market share have been evaluated. As a result, some financial ratios are calculated. These ratios are calculated based on Gart et al. (1994), NAIC guidelines and IRDA.

Banking Sector in India

A. From World War-I to Independence

The period during the First World War (1914-1918) through the end of the Second World War (1939-1945), and two years thereafter until the independence of India were challenging for Indian banking. The years of the First World War were turbulent, and it took its toll with banks simply collapsing despite the Indian economy gaining indirect boost due to war-related economic activities.

At least 94 banks in India failed between 1913 and 1918 as indicated in the following table:

Table: 1.1

Banks that failed between1913 to 1918

Year	No. of banks That failed	Authorised capital(lakhs)	Paid-up capital(lakhs)
1913	12	274	35
1914	42	710	109
1915	11	56	5
1916	13	231	4
1917	9	76	25
1918	7	209	1

B. Post-independence

The major steps to regulate banking include:

1. In 1948, the Reserve Bank of India, India's central banking authority, was nationalized, and it became an institution owned by the Government of India.

2. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India."

3. The Banking Regulation Act also provided that no new bank or branch of an existing bank may be opened without a license from the RBI, and no two banks could have common directors.

C. Nationalization

The GOI issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969. A second dose of nationalization of 6 more commercial banks followed in 1980. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy.

D. Liberalization

In the early 1990s the then Narsimha Rao government embarked on a policy of liberalization and gave licenses to a small number of private banks, which came to be known as New Generation tech-savvy banks.

Efficiency and Productivity of Banking Sector in India

An efficient system of financial intermediation generally contributes to the risk mitigation process in the economy. For instance, enhanced efficiency in banking can result in greater and more appropriate innovations, improved profitability as well as greater safety and soundness when the improvement in productivity is channeled towards strengthening capital buffers that usually absorb risks.

a. Business per Employee

In India, banks are of different sizes. These banks, irrespective of their size, have diversified into many new activities such as merchant banking, insurance and several other fee based activities.

Table 1.2

Business per Employee of Commercial Banks in India

Business per Employee of Commercial Banks in India

(in Rupees lakhs)

Year	Domestic Banks						All Domestic Banks	Foreign Banks	All Commercial Banks
	Public Sector Banks			Private Banks					
	State Bank Group	Nationa-lised Banks	All Public Sector Banks	Old Private Banks	New Private Banks	All Private Banks			
1999-00	122.11	126.18	124.71	169.53	976.01	255.23	133.93	627.00	140.92
2000-01	158.83	160.18	159.69	196.62	758.99	296.39	170.58	720.19	179.43
2001-02	181.54	197.59	191.57	218.10	651.21	333.86	204.10	773.40	213.97
2002-03	205.09	221.05	215.09	266.19	834.88	445.68	236.45	909.68	247.02
2003-04	232.90	255.74	247.22	316.86	898.08	527.85	275.17	952.50	286.90
2004-05	284.04	318.92	305.96	362.03	870.97	578.65	335.98	966.11	348.27
2005-06	337.79	383.07	366.61	419.53	904.30	670.67	405.91	955.41	419.77
2006-07	435.52	490.21	470.99	486.02	818.02	694.07	506.77	995.09	521.94
2007-08	565.06	618.28	600.10	569.32	831.96	751.42	262.14	1037.10	643.24
2008-09	650.22	783.16	734.35	638.43	787.15	743.42	736.19	1282.74	753.44
2009-10	735.52	947.40	870.29	700.02	840.71	798.37	856.00	1445.87	873.32
#	Figures have been adjusted for bank merger.								

Source: Computed from Statistical Tables relating to Banks in India (RBI).

b. *CRAR*:

The capital adequacy ratio measures the amount of a bank's capital in relation to its risk weighted credit exposures and is most widely used measure of soundness of banks. It determines the capacity of a bank to withstand the unexpected losses arising out of its operations. The higher the capital adequacy ratio a bank has, the greater would be its capacity to absorb any unexpected losses before becoming insolvent.

Table 1.3
CRAR of Commercial Banks in India (in per cent)

CRAR of Commercial Banks in India

(in per cent)

Years	State Bank Group	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All Commercial Banks
1999-00	12.29	10.35	12.99	13.04	16.16	13.12
2000-01	12.94	10.32	14.21	11.94	16.17	13.07
2001-02	13.19	10.77	12.00	10.30	14.37	11.51
2002-03	14.01	12.14	13.19	8.80	18.53	12.28
2003-04	13.57	13.23	14.38	11.30	19.82	13.89
2004-05	12.06	13.10	12.16	12.46	17.42	14.07
2005-06	11.90	12.19	5.54	12.36	15.75	12.61
2006-07	12.30	12.37	12.08	11.99	12.39	12.28
2007-08	13.21	12.13	14.08	14.39	13.09	13.01
2008-09	13.96	13.24	14.76	15.33	14.32	13.98
2009-10	13.46	13.25	15.21	17.96	17.25	14.58

Source: Computed from Statistical Tables relating to Banks in India (RBI).

Historical evolution of Life Insurance business in India

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (*Manusmrithi*), Yagnavalkya (*Dharmasastra*) and Kautilya (*Arthasastra*). Some of the important milestones in the life insurance business in India are given in the following table.

Table 1.4
Milestones of insurance regulations in the 20th Century

Year	Significant regulatory event
1912	First piece of insurance regulation promulgated – Indian Life Insurance company Act, 1912
1928	Promulgation of the Indian Insurance Companies Act
1938	Insurance Act 1938 introduced, the first comprehensive legislation to regulate insurance business in India
1956	Nationalization of life insurance business in India
1972	Nationalization of general insurance business in India
1993	Setting-up of the Malhotra Committee
1994	Recommendations of Malhotra Committee released
1995	Setting-up of Mukherjee Committee
1996	Setting-up of an (interim) Insurance Regulatory Authority (IRA)
1997	Mukherjee Committee Report submitted but not made public
1997	The Government gives greater autonomy to LIC, GIC and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector.
1998	The cabinet decides to allow 40% foreign equity in private insurance companies – 26% to foreign companies and 14% to non-resident Indians (NRIs), overseas corporate bodies (OCBs) and foreign institutional investors (FIIs) 1999 The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA Act was renamed the Insurance Regulatory and Development Authority (IRDA) Act
1999	Cabinet clears IRDA Act
2000	President gives assent to the IRDA Act

Performance of Life Insurance Sector in India

India has come a long way since the economic reforms in 1991, moving from the growth rates of 5% into the orbit of 7-9% growth rates. This growth has been structurally driven by economic reforms, private entrepreneurship and linkages to the global economic boom. The following table shows the gross financial savings of household sector in the country.

Table 1.5
Financial savings of the Household Sector

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Financial savings of household	12.9	13.5	15.5	12.8	12.4	13.5	14.6	13.4	19.5	20.3	22.1

Source: IRDA Annual Reports various issues from 2001-02 to 2010-11

Since 1999, when the government opened up the insurance sector by allowing private companies to solicit insurance and also allowing foreign direct investment of up to 26%, the insurance sector has been characterized by a booming market. Hence 2010, was a landmark year in the history of the Indian insurance industry as it celebrated a decade since the entry of the private sector into this business.

1. Life Insurance Companies operating in India:

The number of life insurance companies in India in the year 2001 is total 5 out of which one in public sector and 4 in private sector. The government opened the doors for private players for entering in the insurance business in the year 2000, as a result, many private players entered in it. The number of private players increased day by day from 5 in the year 2001 to 23 in the year 2011. At present, there are 24 insurance companies in India.

The following tables shows the number of life insurance companies operating in India, their date of registration and year of operation and the number of offices in India.

Table 1.6
Number of Life Insurance companies operating in India

Sl. No.	Insurers	Foreign Partners	Regn. No.	Date of Registration	Year of Operation
1	Life Insurance Corporation of India	---	512	01.09.1956	1956-57
2	HDFC Standard	Standard Life Assurance, UK	101	23.10.2000	2000-01
3	Max New York	New York Life, USA	104	15.11.2000	2000-01
4	ICICI Prudential	Prudential Plc, UK	105	24.11.2000	2000-01
5	Kotak Mahindra Old Mutual	Old Mutual, South Africa	107	10.01.2001	2001-02
6	Birla Sun Life	Sun Life, Canada	109	31.01.2001	2000-01
7	TATA AIG	American International Assurance Co., USA	110	12.02.2001	2001-02
8	SBI Life	BNP Paribas Assurance SA, France	111	29.03.2001	2001-02
9	ING Vysya	ING Insurance International B.V, Netherlands	114	02.08.2001	2001-02
10	Bajaj Allianz	Allianz, Germany	116	03.08.2001	2001-02
11	Metlife	Metlife International Holdings Ltd., USA	117	06.08.2001	2001-02
12	Reliance	---	121	03.01.2002	2001-02
13	Aviva	Aviva International Holdings Ltd., UK	122	14.05.2002	2002-03
14	Sahara	---	127	06.02.2004	2004-05
15	Shriram	Sanlam, South Africa	128	17.11.2005	2005-06
16	Bharti AXA	AXA Holdings, France	130	14.07.2006	2006-07
17	Future Generali	Generali, Italy	133	04.09.2007	2007-08
18	IDBI Federal	Ageas, Europe	135	19.12.2007	2007-08
19	Canara HSBC OBC	HSBC, UK	136	08.05.2008	2008-09
20	Aegon Religare	Aegon ,Netherlands	138	27.06.2008	2008-09
21	DLF Pramerica	Prudential of America, USA	140	27.06.2008	2008-09
22	Star Union Dai-ichi	Dai-ichi Mutual Life Insurance,Japan	142	26.12.2008	2008-09
23	IndiaFirst	Legal & General Middle East Limited, UK	143	05.11.2009	2009-10
24	Edelweiss Tokio	Tokio Marine Holding Inc,Japan	147	12.05.2011	2011-12

* as on 31st December, 2011.

Source: Computed from IRDA Annual Reports various issues from 2001-02 to 2010-11.

2. Number of Individual Agents:

Individual agents are the major source for getting new business in life insurance industry. The number of individual agents during the year 2002 in the private sector was 34012 and it has increased year by year. In the public sector during the year 2002, it was 792112 and it has increased gradually and in the year 2012, it was 1278234. The following table shows the increased number of individual agents during the study period.

Table 1.7
Number of Individual Agents (As on March 31st)

Insurer	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Aegon Religare	10861	7617	2309	–	–	–	–	–	–	–
Aviva	23219	32728	30838	35307	29052	10974	3806	5002	1868	–
Bajaj Allianz	189667	167741	204941	250239	216191	109141	32565	36251	14157	4377
Bharti AXA	15210	32661	28495	11749	1266	–	–	–	–	–
Birla Sunlife	144573	168124	164363	109034	56490	17738	5288	12696	6179	2009
Canara HSBC*	–	–	–	–	–	–	–	–	–	–
DLF Pramerica	5199	2115	113	–	–	–	–	–	–	–
Future Generali	52666	42613	24437	11	–	–	–	–	–	–
HDFC Standard	136009	198879	207626	144714	79109	34887	10305	19038	11237	3214
ICICI Prudential	190407	241830	299879	306354	234460	72383	29890	46639	23825	10861
IDBI Federal	7882	7737	6509	279	–	–	–	–	–	–
IndiaFirst	296	–	–	–	–	–	–	–	–	–
ING Vysya	34957	53273	76058	52760	33944	18683	7622	11671	3906	1135
Kotak Mahindra	38269	35897	42083	34723	24484	12523	2900	6511	3730	1348
Max New York	43542	72828	84651	36901	25044	15275	6997	10296	5773	2620
MetLife	28840	63300	60727	36798	20848	9985	3336	3155	1454	417
Reliance Life	189433	195565	149613	184194	95622	19956	5005	6381	1599	484
Sahara	14180	13856	13515	12839	9797	78	–	–	–	–
SBI Life	79628	65532	68993	40643	25356	8128	2165	24690	2218	719
Shriram	10139	21554	19759	17659	10384	5759	–	–	–	–
Star Union Dai-ichi	128	69	–	–	–	–	–	–	–	–
TATA AIG	87223	151557	107670	52544	28105	35336	17737	32890	15451	7038
Private Total	**1302328**	**1575476**	**1592579**	**1326748**	**890152**	**370846**	**127616**	**215220**	**91397**	**34222**
LIC	1337064	1402807	1344856	1193744	1103047	1052993	353634	1341597	947405	442680
Industry Total	**2639392**	**2978283**	**2937435**	**2520492**	**1993199**	**1423839**	**481250**	**1556817**	**1038802**	**476902**

* the number of Individual agents was Nil as on 31st March, 2011.
Note: "–" indicates that the company has not started its operations.

Source: Computed from IRDA Annual Reports various issues from 2001-02 to 2010-11.

3. Number of Corporate Agents:

The following table shows the increased number of corporate agents during the study period.

Table 1.8

Number of Corporate Agents (As on March 31st)

Insurer	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Aegon Religare	4	10	7	–	–	–	–	–	–	–
Aviva	11	15	17	21	5	3	13	42	2	–
Bajaj Allianz	289	864	682	520	87	26	115	91	45	18
Bharti AXA	13	13	12	2	2	–	–	–	–	–
Birla Sunlife	164	380	317	161	93	34	187	511	139	33
Canara HSBC	7	5	3	–	3	–	–	–	–	–
DLF Pramerica	7	11	2	–	–	–	–	–	–	–
Future Generali	12	9	4	–	–	–	–	–	–	–
HDFC Standard	8	374	371	848	33	15	51	171	75	35
ICICI Prudential	15	22	47	46	17	7	40	179	136	80
IDBI Federal	6	8	41	2	2	–	–	–	–	–
IndiaFirst	6	2	–	–	1	–	–	–	–	–
ING Vysya	1027	58	53	41	22	–	98	161	8	3
Kotak Mahindra	25	95	100	235	53	11	76	225	55	12
Max New York	55	81	84	29	21	12	1	12	4	–
MetLife	12	29	37	35	21	2	38	41	10	5
Reliance Life	67	225	126	39	12	4	8	43	9	1
Sahara	8	9	5	1	1	–	1	–	–	–
SBI Life	100	127	94	23	27	8	10	172	6	–
Shriram	7	9	4	4	–	–	–	–	–	–
Star Union Dai-ichi	9	2	2	–	1	–	–	–	–	–
TATA AIG	18	72	83	63	29	20	42	186	108	68
Private Total	**1870**	**2420**	**2091**	**2070**	**430**	**142**	**680**	**1834**	**597**	**255**
LIC	295	510	415	345	226	74	139	602	160	20
Industry Total	**2165**	**2930**	**2506**	**2415**	**656**	**216**	**819**	**2436**	**757**	**275**

Note: "–" indicates that the company has not started its operations.

Source: Computed from IRDA Annual Reports various issues from 2001-02 to 2010-11

Insurance penetration & density in India

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). However, there is a marginal increase in density, which has increased from USD 2.4 in 2001 to USD 8.7 in 2009. The level of penetration, particularly in life insurance, tends to rise as income levels increase. India, with its huge middle class households, has exhibited growth potential for the insurance industry.

Table 1.9 Insurance Penetration and Density in India

	Life		**Non-life**		**Industry**	
Year	**Density**	**penetration**	**Density**	**Pene tration**	**Density**	**Pene tration**
	(USD)	**(% age)**	**(USD)**	**(% age)**	**(USD)**	**(%age)**
2001						
2002	9.1	2.15	2.4	0.56	11.5	2.71
2003	11.7	2.59	3	0.67	14.7	3.26
2004	12.9	2.26	3.5	0.62	16.4	2.88
2005	15.7	2.53	4	0.64	19.7	3.17
2006	18.3	2.53	4.4	0.61	22.7	3.14
2007	33.2	4.1	5.2	0.6	38.4	4.8
2008	40.4	4	6.2	0.6	46.6	4.7
2009	41.2	4	6.2	0.6	47.4	4.6
2010	47.7	4.6	6.7	0.6	54.3	5.2
2011	55.7	4.4	8.7	0.71	64.4	5.1

Insurance density is measured as ratio of premium (in US Dollar) to total population.Insurance penetration is measured as ratio of premium (in US Dollars) to GDP (in US Dollars). Source: Swiss Re, Various Issues.

Number of New policies Issued

It is another important indicator of growth and performance of the insurance companies. It is a pointer towards the spread of message of insurance among those people who have never availed of the benefits of life insurance as well as the existing policyholders. The following table shows the number of new policies issued by life insurance industry during the study period. However, the number of insurance policies issued by the private sector shows highest growth rate as compared to the public sector. This indicates the growth rate of private sector companies in the industry.

Table 1.10
LIFE INSURERS: NUMBER OF NEW POLICIES ISSUED

(in Lakhs)

INSURERS	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
LIC	370.38 (-4.70)	388.63 (8.21)	359.13 (-4.52)	376.13 (-1.61)	382.29 (21.01)	315.91 (31.75)	239.78 (-11.09)	269.68 (9.87)	245.46 (96.75)
Private Sector	111.14 (-22.61)	143.62 (-4.32)	150.11 (13.19)	132.62 (67.40)	79.22 (104.64)	38.71 (73.37)	22.33 (34.62)	16.59 (101.05)	8.25 (3.25)
Total	**481.52 (-9.53)**	**532.25 (4.52)**	**509.23 (0.10)**	**508.74 (10.23)**	**461.52 (30.14)**	**354.62 (35.29)**	**262.11 (– 8.44)**	**286.27 (12.83)**	**253.71**

Note: Figure in bracket indicates the growth over the previous year in per cent.

Source: Computed from IRDA Annual Reports various issues from 2001-02 to 2010-11

It has been revealed out from the above table that the performance of LIC in terms of new policies business has deteriorated and those of private players have been improved tremendously. In 2001-02, the number of policies of LIC was only 232.75476 lakhs which increased to 269.68069 lakhs in 2003-04. Hence it can be inferred that, there is considerable growth in the number of new policies business in a period of post liberalization.

Paid up Capital

Capital base of the LI companies is important for building the fixed assets and to meet the initial administrative expenses. Capital base means paid up capital held by the companies at particular point of time. Table 3.17 gives the details of share capital held by the life insurance industry both public sector and private sector.

Table 1.11
Equity share capital of Life Insurers

(₹ Crore)

Insurer	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Aegon Religare	950.00	570.00	300.00	–	–	–	–	–	–	–
Aviva	2004.90	1888.80	1491.80	1004.50	758.20	458.70	319.80	242.80	154.80	–
Bajaj Allianz	150.71	150.71	150.71	150.71	150.37	150.23	150.07	150.07	150.03	150.00
Bharti AXA	1525.35	1131.35	668.43	366.11	150.00	1.10	–	–	–	–
Birla Sun Life	1969.50	1969.50	1879.50	1274.50	671.50	460.00	350.00	290.00	180.00	150.00
Canara HSBC	700.00	500.00	400.00	–	–	–	–	–	–	–
DLF Pramerica	293.96	221.30	137.05	–	–	–	–	–	–	–
Future Generali	1052.00	702.00	468.50	185.00	–	–	–	–	–	–
HDFC Standard	1994.88	1968.00	1795.82	1271.00	801.26	620.00	320.00	255.50	218.00	168.00
ICICI Prudential	1428.46	1428.14	1427.26	1401.11	1312.30	1185.00	925.00	675.00	425.00	190.00
IDBI Federal	700.00	450.00	450.00	200.00	–	–	–	–	–	–
ING Vysya	1464.88	1019.15	1019.15	790.00	690.00	490.00	325.00	245.00	170.00	110.00
IndiaFirst	325.00	200.00	–	–	–	–	–	–	–	–
Kotak Mahindra	510.29	510.29	510.29	480.27	330.35	244.58	211.76	151.26	131.30	101.00
Max New York	1841.00	1838.82	1782.43	1032.43	732.43	557.43	466.08	346.08	255.00	250.00
MetLife	1969.57	1774.79	1580.00	761.08	530.00	235.00	235.00	160.00	110.00	110.00
Reliance	1165.84	1164.65	1162.33	1147.70	664.00	331.00	217.10	160.00	125.00	125.00
Sahara	232.00	232.00	232.00	232.00	157.00	157.00	157.00	157.00	–	–
SBI Life	1000.00	1000.00	1000.00	1000.00	500.00	425.00	350.00	175.00	125.00	125.00
Shriram	175.00	125.00	125.00	125.00	125.00	125.00	–	–	–	–
Star Union Dai-ichi	250.00	250.00	150.00	–	–	–	–	–	–	–
TATA AIG	1953.50	1920.50	1519.50	870.00	547.00	447.00	321.00	231.00	185.00	185.00
Private Total	**23656.85**	**21015.00**	**18249.77**	**12291.42**	**8119.41**	**5887.05**	**4347.81**	**3238.71**	**2229.13**	**1664.00**
LIC	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Industry Total	**23661.85**	**21020.00**	**18254.77**	**12296.42**	**8124.41**	**5892.05**	**4352.81**	**3243.71**	**2234.13**	**1669.00**

Note: "–" indicates the company has not started its operation.

Source: Computed from IRDA Annual Reports various issues from 2001-02 to 2010-11

Premium Income

As a matter of fact, premium is the major source of income to the insurance companies. As a matter of fact the amount of premium collected indicates the volume of business undertaken by the organizations.

Table1.12
Total Life Insurance Premium

(₹ Crore)

INSURER	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
LIC	**203473.40 (9.35)**	**186077.31 (18.30)**	**157288.04 (5.01)**	**149789.99 (17.19)**	**127822.84 (40.79)**	**90792.22 (20.85)**	**75127.29 (18.25)**	**63533.43 (16.30)**	**54628.49 (9.65)**	**49821.91 (42.79)**	**34892.02**
Aegon Religare	388.61	165.65	31.21	–	–	–	–	–	–	–	–
Aviva	2345.17	2378.01	1992.87	1891.88	1147.23	600.27	253.42	81.50	13.47	–	–
Bajaj Allianz	9609.95	11419.71	10624.52	9725.31	5345.24	3133.58	1001.68	220.80	69.17	7.14	–
Bharti AXA	792.02	669.73	360.41	118.41	7.78	–	–	–	–	–	–
Birla Sun Life	5677.07	5505.66	4571.80	3272.19	1776.71	1259.68	915.47	537.54	143.92	28.26	0.32
Canara HSBC	1531.86	842.45	296.41	–	–	–	–	–	–	–	–
DLF Pramerica	95.04	38.44	3.37	–	–	–	–	–	–	–	–
Future Generali	726.16	541.51	152.60	2.49	–	–	–	–	–	–	–
HDFC Standard	9004.17	7005.10	5564.69	4858.56	2855.87	1569.91	686.63	297.76	148.83	33.46	0.002
ICICI Prudential	17880.63	16528.75	15356.22	13561.06	7912.99	4261.05	2363.82	989.28	417.62	116.38	5.97
IDBI Federal	811.00	571.12	318.97	11.90	–	–	–	–	–	–	–
IndiaFirst	798.43	201.60	–	–	–	–	–	–	–	–	–
ING Vysya	1708.95	1642.65	1442.28	1158.87	707.20	425.38	338.86	88.51	21.16	4.19	–
Kotak Mahindra	2975.51	2868.05	2343.19	1691.14	971.51	621.85	466.16	150.72	40.32	7.58	–
Max New York	5812.63	4860.54	3857.26	2714.60	1500.28	788.13	413.43	215.25	96.59	38.95	0.16
MetLife	2508.17	2536.01	1996.64	1159.54	492.71	205.99	81.53	28.73	7.91	0.48	–
Reliance	6571.15	6604.90	4932.54	3225.44	1004.66	224.21	106.55	31.06	6.47	0.28	–
Sahara	243.41	250.59	206.47	143.49	51.00	27.66	1.74	–	–	–	–
SBI Life	12911.64	10104.03	7212.10	5622.14	2928.49	1075.32	601.18	225.67	72.39	14.69	–
Shriram	821.52	611.27	436.17	358.05	184.17	10.33	–	–	–	–	–
Star Union Dai-ichi	933.31	530.37	50.19	–	–	–	–	–	–	–	–
TATA AIG	3985.22	3493.78	2747.50	2046.35	1367.18	880.19	497.04	253.53	81.21	21.14	–
Private Total	**88131.60 (11.04)**	**79369.94 (23.06)**	**64497.43 (25.09)**	**51561.42 (82.50)**	**28253.00 (87.31)**	**15083.54 (95.19)**	**7727.51 (147.65)**	**3120.33 (178.83)**	**1119.06 (310.59)**	**272.55 (4124.31)**	**6.45**
Industry Total	**291605.00 (9.85)**	**265447.25 (19.69)**	**221785.47 (10.15)**	**201351.41 (29.01)**	**156075.84 (47.41)**	**105875.76 (27.78)**	**82854.80 (24.31)**	**66653.75 (19.56)**	**55747.55 (11.28)**	**50094.46 (43.54)**	**34898.47**

"–" indicates the company has not started its operation.
Note: Figure in bracket indicates the growth over the previous year in per cent.

Source: Computed from IRDA Annual Reports various issues from 2001-02 to 2010-11

It has been clearly pointed out from the above table that the total premium income of LIC and private players during 2000-01 was Rs. 34892.02 crores and Rs. 6.45 crores respectively**.** There has been a constant increase in the total premium income of LIC being Rs. 202889.28crores in 2011-12 and in private sector it was 84182.83 crores in 2011-12. The growth in the total premium income was recorded maximum in the year 2006-07 in case of LIC and in case of private sector it was in the year 2001-02. This is due to the liberalization in the country and the entrant of private players in the industry and they were actively participated in the business growth.

Growth of Life Insurance New Business in India

With the entry of private insurers in life insurance business, it is obvious that some proportion of new business will go in the hands of private life insurers. An attempt, therefore, has been made to study the growth of new business in terms of policies and premium income of Indian life insurance industry. Further, the share of private insurers and LIC in total new business has also been studied. The following table reveals that total new business policies of life insurance industry increased from 253.71 lac in 2002-03 to 353.74 lac in 2010-11, registering a growth rate of 16.1 per cent during the period of study. Similarly, total new business premium of life insurance industry increased from Rs. 9707.45 crore in 2000- 01 to Rs. 92988.71 crore in 2007-08, which showed a growth rate of 35.1 per cent during the period of study. It is worth noting that the percentage share of private life insurers was higher (36.36%) in case of new business premium as compared to new business policies (26.07%), which meant that per policy premium income of private life insurers was higher than LIC during the above period. Coefficient of variation stood at 20.85 per cent and 96.36 per cent in terms of policies for LIC and private life insurers respectively. This shows that growth was more consistent for LIC as compared to private life insurers both in terms of policies and premium.

Table 1.13
Growth of New Business

Year	New Life Insurance Business					
	LIC		Private Companies		Total	
	No. of Policies (In Lac)	Premium (Rs. In Crore)	No. of Policies (In Lac)	Premium (Rs. In Crore)	No. of Policies (In Lac)	Premium (Rs. In Crore)
2000-01	N.A.	9700.98 (99.92)	N.A.	6.45 (0.08)	N.A.	9707.45
2001-02	N.A.	19558.77 (98.50)	N.A.	268.51 (1.50)	N.A.	19857.28
2002-03	245.46 (96.75)	15976.76 (94.30)	8.25 (4.25)	965.60 (5.70)	253.71	16942.45
2003-04	269.68 (94.20)	17347.62 (87.67)	16.59 (5.80)	2440.70 (12.33)	286.27	19788.32
2004-05	239.78 (91.48)	20653.06 (78.78)	22.33 (8.52)	5564.57 (21.22)	262.11	26217.63
2005-06	315.91 (89.08)	28515.87 (73.52)	38.71 (10.92)	10269.67 (26.48)	354.62	38785.54
2006-07	382.29 (82.83)	56223.56 (74.35)	79.22 (17.17)	19393.69 (25.65)	461.51	75617.25
2007-08	376.13 (73.93)	59182.20 (63.64)	132.61 (26.07)	33806.51 (36.36)	508.74	92988.71
2009-10	270.58	61718.52	111.65	24980.33	382.23	86698.85
2010-11	262.08	67,135.31	88.45	26328.49	350.53	93463.80
G	10.4	26.7	72.7	189.6	16.1	35.1
C.V.	20.85	66.37	96.36	131.59	30.54	81.17

Note: N.A. stands for not available Note: The figures in parenthesis denote percentage share to total business Source: Compiled from various Annual Reports of IRDA, IRDA Journals and issues of Life Insurance Today pertaining to period 2000-01 to 2010-11.

Total Income

Total income is the overall revenue of the life insurers. The total income is the sum of Premium Income, FPI, and Renewal Premium. It has been increased significantly in every year. The below table presents total income of LIC and private insurers from the study period 2001 to 2010.

Table 1.14
Total Income(Rs. In Crores)

FY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
LIC	53968	80982	93089	112393	132147	174425	206363	217274	261773
PVT	--	2617	4323	9049	18863	24242	52648	77970	125826
Total	53968	83599	97412	121442	151010	198667	259011	295244	387599

Source: Computed from IRDA Annual Reports various issues from 2001-02 to 2010-11

It has been elucidate from the above table that the total income of both public and private life insurance players has been significantly increased over a period of ten year from 2001 to 2010. The total income of LIC was Rs. 53968 in 2001-2002 and it has increased to Rs. 132147 in 2005-06 and further it rose to Rs. 261773 in the year 2009-2010. The total income of all private insurers was only Rs. 2617 crores in 2002-03 and it has increased to Rs. 9049 crores in 2004-05 an almost more than thrice of the initial year. Thus it can be concluded that a life insurance industry has achieved a remarkable growth after privatization and the entry of large number of private players with new technology and innovative tailor-made product has improved the performance and growth of Indian life insurance business.

Market Share

Market share is also an important indicator of growth and performance of the insurance companies. Market share is the percentage of share captured by any company. A company with high market share reflects strong market position against the competitors and vice-versa. Table No. 3.20 presents the market share in terms of total premium of both LIC and private life insurers from the period 2001 to 2011.

Table 1.15
Market Share

FY	LIC	PVT
2001-02	99.46	0.56
2002-03	97.19	2.01
2003-04	95.29	4.71
2004-05	90.67	9.33
2005-06	85.75	14.25
2006-07	81.90	18.10
2007-08	74.39	25.61
2008-09	70.92	29.08
2009-10	70.10	29.90
2010-11	69.78	30.22
Total	**100**	**100**

Source: Computed from IRDA Annual Reports various issues from 2001-02 to 2010-11

It has been revealed out that the market share of the entire private players has sharply risen from 0.56% in 2001-02 to 29.9% in 2009-10. Contrary to this, the market share of LIC has been decreasing year by year with the entry of private players in life insurance market. This indicates that the private players are doing quite well and are improving year by year, thus affecting the performance of LIC.

Financial Ratios of Life Insurance Industry

An attempt has been made to evaluate the financial performance of life insurance industry in India. As a result, the following financial ratios are calculated for the industry as a whole. These ratios are calculated based on Gart et al. (1994), NAIC guidelines and IRDA.

A. Total Assets to Earned Premium Ratio: This ratio is calculated as a percentage of total assets to earned premium. This indicated how efficiently the organizations assets are utilized to increase the business. A high ratio indicates high level of performance. In case of insurance industry as a whole, this ratio is increasing year by year from 2003 to 2006. But in the year 2007 it was reduced due to recession all over the world. After 2007 again it shows an increasing trend. In the year 2010 the ratio was 5.149 as compared to 2002 it was 4.797

Table 1.16
Total Assets to Earned Premium Ratio

(Rs. In Lakhs)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Assets	18822671	24029524	28046974	35260818	43056337	56026207	67900550	87767904	97613794	136687405	158364690
Total Premium	3489747	5009446	5574755	6665375	8285480	10587576	15606532	20135141	22178547	26545037	**29160499**
Ratio	**5.394**	**4.797**	**5.031**	**5.29**	**5.197**	**5.292**	**4.351**	**4.359**	**4.401**	**5.149**	**5.43**

Source: Computed from the information available in IRDA Annual reports various issues from 2001-02 to 2010-11

B. Investment Income to Earned Premium Ratio: This ratio indicates the investment performance and how efficiently the organization assets are invested and accordingly how much amount of premiums earned. Higher the ratio indicates the high level of performance. In the year 2001, the ratio was 0.009 and after words it is increasing but again in the year 2010 it was 0.009. It indicates the stable growth of the industry.

Table 1.17
Investment Income to Earned Premium Ratio

(Rs. In lakhs)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Investment Income	30119	61986	62582	68558	80644	82284	104174	150412	136878	234886	480129
Total Premium	3489747	5009446	5574755	6665375	8285480	10587576	15606532	20135141	22178547	26545037	29160499
Ratio	**0.009**	**0.012**	**0.011**	**0.01**	**0.01**	**0.008**	**0.007**	**0.007**	**0.006**	**0.009**	**0.016**

Source: Computed from the information available in IRDA Annual reports various issues from 2001-02 to 2010-11

C. Investment Income to Total Investments Ratio: This ratio indicates the financial solidity of an insurer and discloses the efficiency in investment decisions. A high ratio indicates the financial soundness of the industry. In case of insurance industry in the country as a whole, the ratio was 0.211 in the year 2001 and it was increasing year by year and in the year 2010 it was 0.268. It indicates the increased performance of investments of the industry.

Table 1.18
Investment Income to Total Investments Ratio

(Rs. In Lakhs)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Investment Income	30119	61986	62582	68558	80644	82284	104174	150412	136878	234886	480129
Total Investments	14290998	18770703	22833661	30004830	36114613	46198494	52590031	62787514	66931969	87665136	103046231
Ratio	**0.211**	**0.33**	**0.274**	**0.228**	**0.223**	**0.178**	**0.198**	**0.24**	**0.205**	**0.268**	**0.047**

Source: Computed from the information available in IRDA Annual reports various issues from 2001-02 to 2010-11

D. Current Ratio: This ratio indicates the ability to pay liabilities inclusive of operating expenses and payment for losses and benefits. Standard current ratio is 2:1. In case of life insurance industry as a whole, this ratio is more than one. This is a positive indication. The industry is always in a position to meet its current obligations. This ratio was 3.61 in the year 2001 and 1.73 in the year 2010.

Table 1.19
Current Ratio

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CA	1750549	2128086	2627497	2607212	2552560	3323677	3789070	4832650	5487667	5621823	6928645
CL	485188	437307	1370990	2199968	2201744	2388894	2494540	2957850	2791066	3250513	2787760
CR	3.61	4.87	1.92	1.19	1.16	1.39	1.52	1.63	1.97	1.73	2.49

Source: Computed from the information available in IRDA Annual reports various issues from 2001-02 to 2010-11

Findings

- Private players started increasing their business and they covered every nook and corner of the society to attract the customers. As a result, the number of life insurance offices increased from 2199 in the year 2001-02 to 11546 in the year 2010-11.
- All the insurance offices are performed well and the premium income of life insurers especially in the private sector increased, this is due to the increase in household sector savings.
- Number of new policies increased and the growth of number of policies also increased. This indicates the growth rate of private sector companies in the industry.
- The level of penetration, particularly in life insurance, tends to rise as income levels increase.
- The market share of the entire private players has sharply risen with the entry of private players in life insurance market. This indicates that the private players are doing quite well and are improving year by year, thus affecting the performance of LIC.
- Total Assets to Earned Premium Ratio is increasing year by year from 2003 to 2006. But in the year 2007 it was reduced due to recession all over the world.
- Investment Income to Earned Premium Ratio as a whole shows the increased level of performance. It indicates the stable growth of the industry.
- Investment Income to Total Investments Ratio indicates the increased performance of the industry as a whole.
- In case of current assets this ratio was 3.61 in the year 2001 and 1.73 in the year 2010 and the industry is always in a position to meet its current obligations.

Recommendations

The following recommendations are offered based on the findings**.**

- In India, since the majority of the banking sector is in public sector which has been widely responsible for the lethargic attitude and poor quality of customer service, it needs to rebuild the blemished image. Else, the bancassurance would be difficult to succeed in these banks.
- A formal and standard agreement between these banks and the insurance companies should be taken up and drafted by a national regulatory body. These agreements must have necessary clauses of revenue sharing. In case of possible conflicts, the bank management and the management of the insurance company should be able to resolve conflicts arising in future.
- If there is any possible conflicts of interest between banker and insurer, that has to be resolved.
- Banks have to set up a consistent Distribution procedure with manual systems in banks.
- Service level agreements between banker and insurer should be established.

- The life insurance market will see a healthy competition with the opening up of developing markets to competition, there is a greater impetus to demand growth and volumes would start dictating economic sizes and pricing. This fuels mergers and acquisition and makes survival of small sized firm difficult. Though life insurance sector had not seen any merger and acquisition as yet but in the near future, with the growth of the growth of market, such problems shall come up.

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