

INSURANCE SECTOR IN INDIA : A COMPARATIVE STUDY OF PUBLIC & PRIVATE INSURANCE COMPANIES

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Abstract

The process of Liberalization, Privatization and Globalization has opened up the Indian Economy for foreign as well as private players. In the light of the economic process, Insurance Sector has been opened up for foreign as well as private players. In the era of competition, performance evaluation has become significant in order to survive for a long period of time. It provides a base for checking and controlling the weak areas of the activity and also provides a ground for growth, expansion and diversification. The present study throws light on the differences in the performances of public sector life insurer LIC and the private life insurers in the country.

Keywords: Life Insurance, life insurance companies, liberalization, privatization

Introduction

Life insurance industry is an important and integral component of macro economy and has emerged as a dominant institutional player in the financial market impacting the health of economy through its multi-dimensional role in savings and capital market. While the primary role of a life insurance company is to provide insurance coverage for managing personal financial risks, it plays a very crucial role in promoting savings by selling a wide range of products and also actively contributes in promoting and sustaining the capital market of a country. Insurance serves a number of valuable. Economic functions that are largely distinct from other types of financial intermediaries. Insurance facilitates to maintain the large size commercial and industrial organizations. The Growth of the international trade of the country has been greatly helped by shifting of risk to Insurance Company. Insurance has been promoting social schemes through investments in Infrastructure and social sector, which includes projects/schemes for generation and transmission of power, housing sector, water supply and sewerage projects/schemes, and development of Roads, Bridges & Road Transport. Apart from economic function it is a major instrument which Provides social security and promotes individual welfare. Social security is an essential requirement of social justice. Insurance is the critical input for a more secure present as well as Future of individuals However in common parlance 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 and is a Financial device to spread 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

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liability. Insurance provides wide range of services like Risk Cover, Tax Protection, Loans, Retirement Planning and Educational Needs.

I. Conceptual Framework

i. History of insurance companies in India

The following Time line of Insurance provides us with bird's eye view of various changes that took place in Insurance Industry.

In 1818 British introduced the life insurance to India with the establishment of the Oriental Life Insurance Company in Calcutta. In 1850 Non-life insurance started with Triton Insurance Company. In 1870 Bombay Mutual Life Assurance Society is the first India owned life insurer. In 1912 The Indian Life Assurance Company Act enacted to regulate the life insurance business. In 1938 The Insurance Act was enacted. In 1956 Nationalization took place. Government took over 245 Indian and foreign insurers and provident societies and Life Insurance Corporation was set up. In 1972 Non-life business nationalized, General Insurance Corporation (GIC) came into being. In 1993 Malhotra committee was constituted under the chairmanship of former RBI chief R. N. Malhotra to draw a blue print for insurance sector reforms. In 1994 Malhotra committee recommended reentry of private players. In 1997 IRDA (Insurance Regulatory and Development Authority) was set up as a regulator of the insurance market in India. In 2000 IRDA started giving license to private insurers. ICICI Prudential, HDFC and Max New York Life Insurance (now MAX LIFE) were first private players to sell insurance policies. Today there are 24 Companies operating in India including LIC

ii. Current Scenario of insurance companies in India

From the above details, it clearly indicates that LIC was the only dominant company enjoying monopoly and has done a lot towards building awareness and developing life insurance business in India. However it lagged behind International developments and standard. All this led the government of India to rethink about the structure of the life insurance industry and in this context, various committees such as the Malhotra committee (1994), Mukherjee committee (1995), etc were appointed. Going by the recommendations of these committees, The Insurance Regulatory and Development Authority Act of 1999 ended the monopoly of LIC and finally laid down a road map for privatization of the life insurance sector. Nevertheless, the Year 2000 was a defining moment in the history of Indian Insurance because for the first Time the sector was opened up to private sector after independence due to Malhotra Committee (1994) recommendations. This allowed private sector to enter insurance industry with a minimum paid up capital of Rs. 100 crores. Foreign insurance was allowed to enter by floating an Indian company preferably a joint venture with Indian partners. Steps were initiated to set up a strong and effective insurance regulatory in the form of a statutory autonomous board on the lines of SEBI.

The insurance sector has come a long way today. It has completed a decade of liberalization. A glance at Indian economy throws light on important aspect showing about still 80 per cent of total population of India is without life insurance cover. This is also an indicator that growth potential for the insurance sector is immense in India. With largest number of life insurance policies in force, its business is growing at the rate of 15-20 per cent annually. Together with banking services, it adds about 7 per cent to the country's GDP. Gross premium collection in India is nearly 2 per cent of its GDP and funds available with LIC for

investments are 8 per cent of GDP of India. Due to opening up of insurance industry since 2000, 24 companies have started their business in the life segment today posing stiff competition among themselves as well the public sector giant LIC. In the era of competition, performance evaluation has become significant in order to survive for a long period of time. It provides a base for checking and controlling the weak areas of the activity and also provides a ground for growth expansion and diversification. In short, performance evaluation refers to measuring performance against expectations.

Literature Review

A thriving insurance sector is of vital importance to every modern economy. It encourages the savings habit, it also provides a safety net to rural and urban enterprises and productive individuals, most importantly it generates long-term invest-able funds for infrastructure building. The nature of the insurance business is such that the cash inflow of insurance companies is constant while the payout is deferred and contingency related (Kumar, 2010). During middle of 20th Century life insurance companies started to operate the evil play natural to all business had its sway. Number of competitors were entered and abolished while profiteering. On 1st September 1956, Life Insurance Corporation of India came into existence after nationalisation of all 245 insurance providing companies. Malhotra Committee was constituted by the government in 1993 to examine the various aspects of the insurance industry. The key element of the reform process was Participation of overseas insurance companies with 26% capital. Creating a more efficient and competitive financial system suitable for the requirements of the economy was the main idea behind this reform (Kannan, 2010). In 1999, Insurance Regulatory and Development Authority (IRDA) has been established to regulate the insurance business in the country (Chaudhary and Kiran, 2011).

Sinha (2005) in his paper highlights the phenomenal growth experienced recently in connection with improvements in economic fundamentals. With comparison in growth, penetration, density and other insurance variables it can be said that still India is an underdeveloped insurance market with huge catch-up potential. It is found that there is potential for expansion of insurance into rural areas, growth has remained slow.

Chandrasekhar (2009) in his article “Learning Nothing, Forgetting Everything” observes that the Government has been pushing ahead with privatization despite there being no evidence of the nationalized insurance industry failing to meet its obligation to insurers or to the Government. The LIC has not only put at the Government’s disposal large volumes of capital for investment but also addressed the problems of insurance for the poor.

Kannan (2010) viewed that India, being rich in population and most of the area is untapped, has tremendous scope for growth in insurance sector. Today insurance business is growing at the rate of 15-20% annually. Together with banking services, it adds about 7% to the country’s GDP. In spite of all this growth the statistics of the penetration of the insurance in the country is very poor. Nearly 80% of Indian populations are without Life insurance cover and the Health insurance. This is an indicator that growth potential for the insurance sector is immense in India.

Imam (2011) analysed Customer behaviours in Life Insurance Industry. Researcher opined that the sale of life insurance policies in India is less than many western and Asian countries. As second largest populated country in world, the Indian insurance market is looking very

prospective to many multinational and Indian insurance companies for expanding their business and market share. With their world market experience and network, these companies have offered many good schemes to lure all type of Indian consumers, but unfortunately failed to get the major share of market. Still the LIC is the biggest player in the life insurance market with approx. 65% market share.

Selvakumar&Piyan (2012) analysed the performance of public and private life insurance companies in India. Researcher opined that today's market is customer centric, and customer is supposed to be king of market. To satisfy customers innovations are taking place with distinct features to attract the customers.

Tiwari & Yadav (2012) conducted a Analytical study on Indian Life Insurance Industry in Post liberalization. Researchers concluded that Indian market is untapped market and found good opportunity. After 1991, the Indian life insurance industry has geared up in all respects and able to avail healthy competition from in-house and abroad players.

Motwani and Anchliaa (2013) conducted and study in Udaipur city to study comparative behaviour between public and private insurance companies. The was based on descriptive research design, in which a Close ended questionnaire was used to collect the primary data from customers of various Insurance companies. Conclusions of study reveal the impact of customers' demography on their choice between Public & Private Insurance companies.

Sharma and Chowhan (2013) in the research paper "A Comparative Study of Public & Private Life Insurance", made an attempt to analyse the performance of public and private life insurance companies in India. Researches concluded that with the entry of private players, the competition is becoming intense. In order to satisfy the customers, every company is trying to implement new creations and innovative product characteristics to attract customers.

Objectives of the Study

- 1) To Study the differences in the performance between public and private Life Insurance Companies.
- 2) To Analyze the Growth in insurance companies over the years.

Research Methodology:

Type of Research: Descriptive

Data Collection: Secondary Data collected from IRDA Journals, Insurance

Time period of study is 6 years from 2011-2017

Statistical Tools: Statistical analysis with the help of descriptive statistics.

Data Analysis And Discussion

List of companies registered:

Table no. 3: List of registered life insurance companies

Sl No	Registration no	Date of Registration	Name of the Company
1	512	completed its 50	Life Insurance Corporation of India
2	101	23.10.2000	HDFC Standard Life Insurance Company Ltd.
3	104	15.11.2000	Max New York Life Insurance Company Ltd.(Max Life now)
4	105	24.11.2000	ICICI Prudential Life Insurance Company Ltd.
5	107	10.1.2001	Kotak Mahindra Old Mutual Life Insurance Ltd.
6	109	31.1.2001	Birla Sun Life Insurance Company Ltd.
7	110	12.2.2001	Tata AIG Life Insurance Company Ltd.
8	111	30.3.2001	SBI Life Insurance Company Ltd.
9	114	2.8.2001	ING Vysya Life Insurance Company Private Ltd.
10	116	3.8.2001	Bajaj Allianz Life Insurance Company Ltd. .
11	117	6.8.2001	Metlife India Insurance Company Ltd.
12	121	3.1.2002	AMP Sanmar Insurance Company Ltd.(now it is Reliance Life Insurance Company Ltd.)
13	122	14.5.2002	Aviva Life Insurance Company India Private Ltd.
14	127	6.2.2004	Sahara India Insurance Company Ltd.
15	128	17.11.2005	Shriram Life Insurance Company Ltd.
16	130	14.07.2006	Bharti AXA Life Insurance Company Ltd.
17	133	4.9.2007	Future General India Life Insurance Company Ltd.
18	135	19.12.2007	IDBI Fortis Life Insurance Company Ltd.
19	136	16.01.2011	Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd.
20	138	27.6.2008	Aegon Religare Life Insurance Company Ltd.
21	140	27.6.2008	DLF Pramerica Life Insurance Company Limited
22	142	09.07.2010	Star Union Dai-chi Life Insurance Co Ltd.
23	143	5/11/2009	India First Life Insurance Company Ltd.
24	147	10.05.2011	Edelweiss Tokyo Life Insurance Co. Ltd.

Source: *Compiled from annual reports, IRDA.*

The above table shows the number of private and public sector insurance companies in India. In the public sector, there is giant life insurer Life Insurance Corporation Of India(LIC) and in private sector there are in total 23 companies as of 2017 data from IRDA annual reports. For the purpose of the study only selected companies which were registered under the study period are taken into consideration.

For the analysis three parameters are taken, namely:

- A. Equity share capital
- B. Premium earned
- C. Profit/loss of companies

A. Equity Share Capital of Insurance Companies

Equity share capital are all the funds raised by a company in exchange of shares of either common or preferred shares of stock. The amount of share capital or equity financing a company has can change over time.

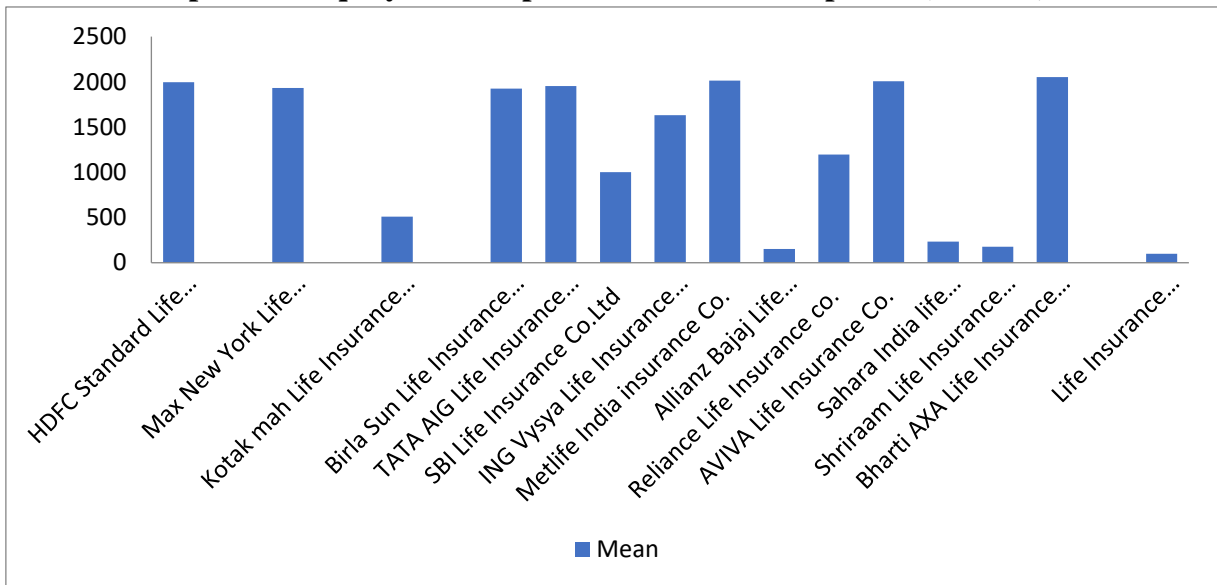
Table 4: Equity share capital of insurance companies (in crores)

Name of the insurer	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	Mean	SD
HDFC Standard Life Insurance	1998.48	1995.28	1994.88	1994.88	1994.80	1994.80	1995.52	1.4
Max New York Life Insurance	1918.81	1918.81	1918.81	1944.69	1944.69	1944.69	1931.75	14.17
Kotak mah Life Insurance Co.	510.29	510.29	510.29	510.29	510.29	510.29	510.29	0

Birla Sun Life Insurance Co.	1901.21	1901.21	1901.21	1901.21	1969.50	1969.50	1923.973	35.26
TATA AIG Life Insurance Co.	1953.50	1953.50	1953.50	1953.50	1953.50	1953.50	1953.50	0
SBI Life Insurance Co.Ltd	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	0
ING Vysya Life Insurance Co.	1750.00	1750.00	1750.00	1600.00	1464.88	1464.88	1629.96	140.4
Metlife India insurance Co.	2012.88	2012.88	2012.88	2012.88	2012.88	2012.88	2012.88	0
Allianz Bajaj Life Insurance Co.	150.70	150.70	150.70	150.71	150.71	150.71	150.71	0
Reliance Life Insurance co.	1196.32	1196.32	1196.32	1196.32	1196.32	1196.32	1196.32	0
AVIVA Life Insurance Co.	2004.90	2004.90	2004.90	2004.90	2004.90	2004.90	2004.90	0
Sahara India life Insurance Co. LTD	232.00	232.00	232.00	232.00	232.00	232.00	232.00	0
Shriraam Life Insurance Co. Ltd	179.38	175.05	179.37	175.00	175.00	175.00	176.466	2.252
Bharti AXA Life Insurance Co.	2406.20	2286.20	2115.70	1978.20	1807.20	1718.65	2052.025	268.6
Life Insurance corporation Of India Ltd.	100.00	100.00	100.00	100.00	100.00	100.00	100.00	0

Source: Compiled from annual reports, IRDA.(Various years)

Graph no. 1:Equity share capital of insurance companies (in crore)



From the above table no 4 and graph no.1, it is observed that among private sector firms, the equity capital share of Bharti AXA life insurance is operating with Rs. 2052.025 Crore which is the highest amongst all private players, followed by Metlife India insurance, with the second highest equity share capital of Rs.2012.88 cr. It is interesting to note that LIC, the biggest life insurer in India, operates with just Rs. 100 Cr capital.

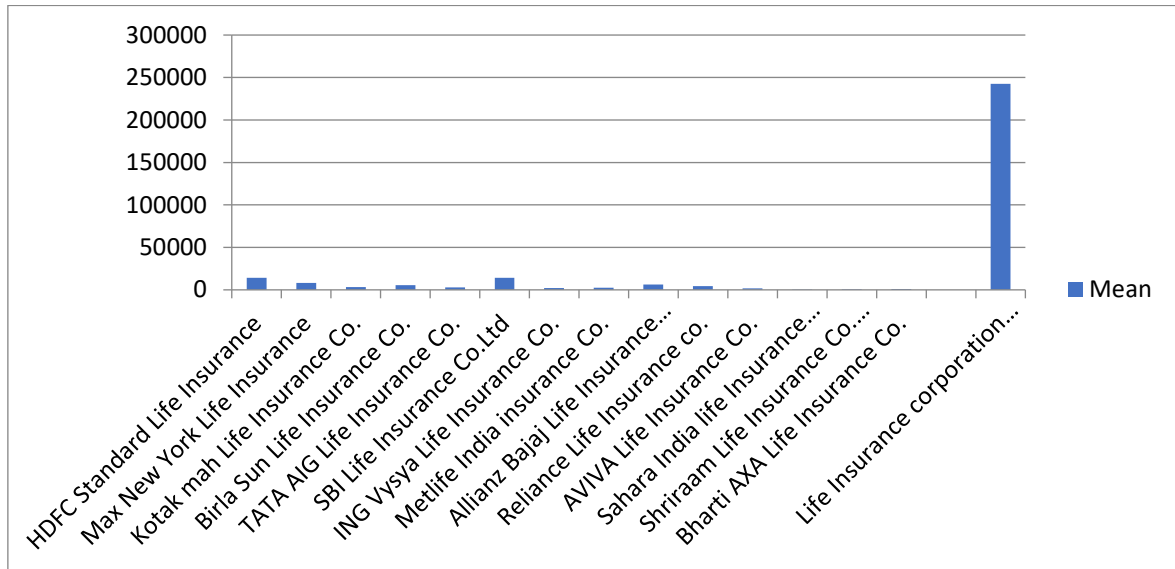
B. Premium Earned by Insurance Companies

Premium earned is the amount of money that insured person pay regularly to a company for insurance against accidents or damage.

Table no.5: Premium earned by insurance companies (in crore)

Name of the insurer	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	Mean	SD
HDFC Standard Life Insurance	19445.49	16312.98	14829.90	12062.90	11322.68	10202.40	14029.39	3493.67
Max New York Life Insurance	10780.40	9216.16	8171.62	7278.54	6638.70	6390.53	8079.325	1683.17
Kotak mah Life Insurance Co.	5139.55	3971.68	3038.05	2700.79	2777.78	2937.43	3427.54	955.96
Birla Sun Life Insurance Co.	5723.96	5579.71	5233.22	4833.05	5216.30	5885.36	5411.933	388.57
TATA AIG Life Insurance Co.	3171.08	2478.96	2122.66	2323.70	2760.43	3630.30	2747.855	565.87
SBI Life Insurance Co.Ltd	21015.13	15825.36	12867.11	10738.60	10450.03	13133.74	14005	3945.04
ING Vysya Life Insurance Co.	2408.58	2046.99	2027.48	1830.67	1742.36	1679.98	1956.01	266.74
Metlife India insurance Co.	3236.08	2827.83	2461.19	2240.59	2429.52	2677.50	2645.45	354.29
Allianz Bajaj Life Insurance Co.	6183.32	5897.31	6017.30	5843.14	6892.70	7483.80	6386.26	659.15
Reliance Life Insurance co.	4026.82	4398.12	4621.08	4283.40	4045.39	5497.62	4478.73	546.81
AVIVA Life Insurance Co.	1336.51	1493.15	1796.25	1878.10	2140.67	2415.87	1843.425	399.78
Sahara India life Insurance Co. LTD	153.94	157.05	166.86	204.63	205.38	225.95	185.635	30.16
Shriram Life Insurance Co. Ltd	1207.94	1022.11	734.66	594.24	618.07	644.16	803.53	252.84
Bharti AXA Life Insurance Co.	1396.50	1208.33	1053.32	872.65	744.52	774.16	1008.247	259.05
Life Insurance corporation Of India Ltd.	300487.36	266444.21	239667.65	236942.30	208803.58	202889.28	242539.1	36549.1

Source: Compiled from annual reports, IRDA.(Various years)

Graph no. 2: Premium earned by insurance companies (in crores)

From the above table no 5 and graph no. 2 it is observed that the premium earned by HDFC Standard life is Rs. 14029.39 crore, which is highest amongst private companies, followed by SBI life insurance (Rs. 14005 crore). It is also observed that LIC emerged as an obvious leader in attracting huge premium for issued life policies i.e Rs. 242539.1 crore.

C. PROFIT /LOSS OF INSURANCE COMPANIES

The profit and loss summarizes the revenues and expenses generated by the company over the entire reporting period.

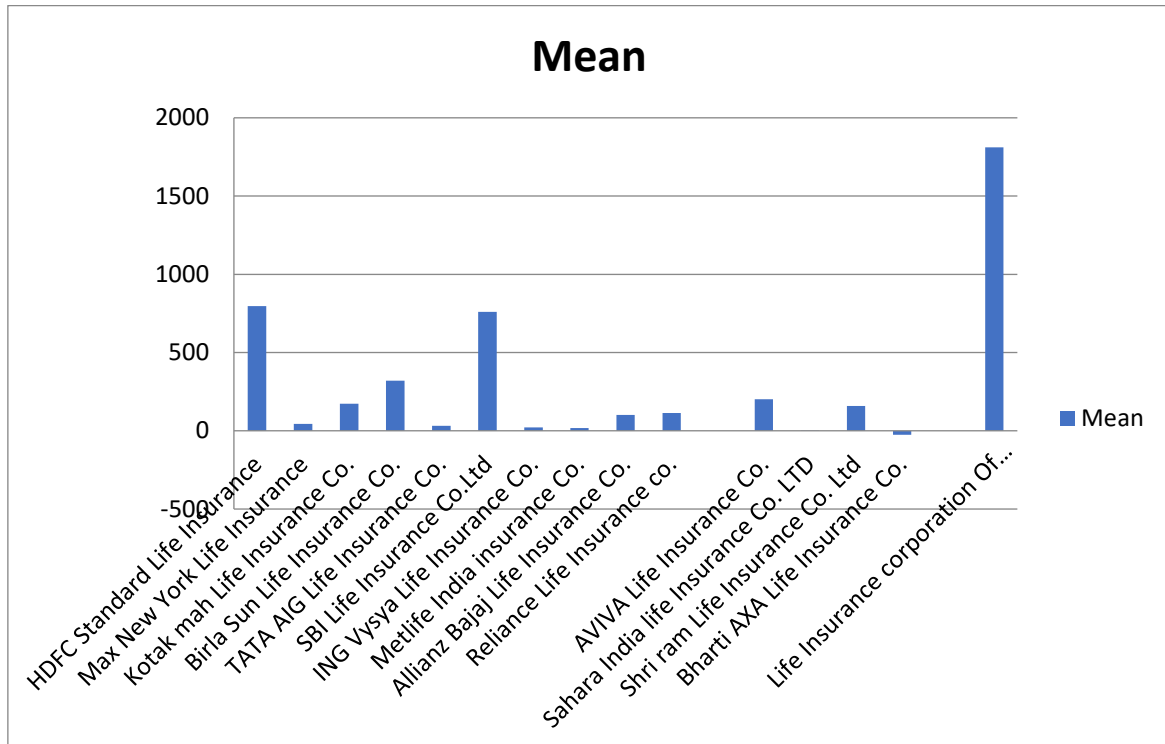
Table no.6: Profit and (loss) of insurance companies (in crore)

Name of the insurer	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	Mean	SD
HDFC Standard Life Insurance	1109.00	892.13	818.40	785.21	725.29	447.73	796.29	216.38
Max New York Life Insurance	154.00	115.20	-7.73	1.04	4.59	1.94	44.84	70.72
Kotak mah Life Insurance Co.	185.88	190.51	207.70	172.28	179.36	102.47	173.1	36.58
Birla Sun Life Insurance Co.	123	140	285	371	542	461	320.3	169.82
TATA AIG Life Insurance Co.	113.47	6.36	26.36	18.33	11.47	8.83	30.81	41.14
SBI Life Insurance Co.Ltd	954.65	861.03	820	740	622	555.82	758.91	150.21
ING Vysya Life Insurance Co.	13.00	10.74	65.25	53.02	23.07	-31.14	22.32	34.24
Metlife India insurance Co.	26.61	17.18	17.06	16.39	11.61	10.08	16.48	5.79
Allianz Bajaj Life Insurance Co.	131.51	147.27	129.99	99.95	38.86	64.45	102.01	42.67
Reliance Life Insurance co.	-61.11	-197.27	135.17	139.6	290.23	380.41	114.51	214.79

AVIVA Life Insurance Co.	40.22	58.27	204.23	266.86	351.43	289.61	201.77	127.31
Sahara India life Insurance Co. LTD	4.11	-9.67	-2.08	3.17	2.76	3.22	0.251	5.336
Shri ram Life Insurance Co. Ltd	327.02	336.13	66.88	74.71	92.62	49.69	157.8	135.31
Bharti AXA Life Insurance Co.	-23.01	-14.16	-18.93	-20.80	-26.68	-46.46	-25.01	11.31
Life Insurance corporation Of India Ltd.	2205.12	2499.50	1805.16	1637.05	1436.38	1281.22	1810.73	464.91

Source: Compiled from annual reports, IRDA.(Various years)

Graph no. 3 :Profit and loss of insurance companies (in crore)



From the above table no 6, and graph no. 3 it is observed HDFC Standard life is leading amongst the private players with the profit of Rs. 796.29 crore, followed by SBI life insurance with profit of Rs. 758.91 crore. It is also observed that LIC emerged as an obvious leader with profit of Rs. 1810.73 cr.

Findings Of The Study

From the above data analysis, it can be concluded that there is a significant difference in the performances of private life insurance companies and the public sector LIC. From the performance analysis of private and public insurers it is found that premium income and equity share capital of the companies vary tremendously over the years .The future of the companies both public and private lies only those who understand the need of the customers by providing innovative products suitable according to the needs of the customers ,adopting

proper distributional channel, reaching out to rural poor and covering the munder the financial blanket.

Conclusion

From the above analysis it can be concluded that with the entry of private life insurers the share of public sector has declined. However, by the virtue of the government support and the faith of public in terms of security and trust held by them in government investment LIC is still a major giant in life insurance business. With the passage of liberalization and support laid by IRDA private life insurers are coming up with innovative and attractive strategies and products in order to gain market for themselves. Due to huge population of the country which is still untapped, insurers both private and public has immense opportunities to expand their business in India. From the above objectives set and analysis done it can be said that there is a significant difference in the performances of public and private sector life insurance companies.

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