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Challenges of Private Sector Life Insurance Companies In India

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The Private Sector Life Insurance Companies has been making rapid strides in terms of increasing their contribution and market share since 2000 onwards. Private sector life insurance companies have experienced rapid expansion of branches from 13 to 8,768 during the period of 2001-2010. The main intention of private life insurance companies were spread and reach to the common man. Each insurer uses to cover many parts of the country. The private insurers are having flexible and competitive nature in terms of services compared with the public sector insurer. This expansion is clear from the number of life insurance offices established during the period.

The Indian life insurance system is having significant base on mixed economic system where in the public sector occupied a monopolistic position in life insurance business. Private players play a major role in life insurance business more efficient and customer friendly. They have also jolted and facing stiff competition from the LIC.

Review of Literature:

Inderjit Singh et.al. (2009) in their Book on "Insurance and Risk Management" analyze the different facets of the privatization of Indian Insurance Sector. The different approaches of managing risk based capital are discussed.
Chandra Sekhar, C.P. (2009) in his article on "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.
Basavanthappa, C. and RajanalkarLaxman (2009) in their article on "Performance of Life Insurance Companies: A Comparative Study" show that the Private Insurance Companies have made their presence felt and over the years have achieved remarkable progress. There is a big opportunity to these companies in the Indian Life Insurance Sector. The companies have to bring out innovative products to suit the different requirements of the public. A healthy competition in the sector would be beneficial to both the players and also the public.

Krishna Swami, G. (2009) in his book "Principles and Practice of Life Insurance" explains clearly the history of insurance, advantages of insurance and the role of insurance in the economy and also in the society. The life insurance products, the concepts of premium, investment management and solvency margin are also discussed at length in the book.
Murthy, T.N. et.al. (2009) in their article on "Performance Evaluation of LIC: Ways of Winning Confidence" conclude that several changes have taken place since opening up of the insurance sector. After liberalization, insurance industry's outlook has been changed significantly. The number of private players and their innovative products are also made attractive for every social segment. The healthier competition has intensified to increase insurance density and penetration levels in order to fulfill customer needs.
SumninderKaurBawa and SubashChander (2009) in their article on "Prospects of Bancassurance in India" opine that the entire banking network caters to the needs of people in every economic segment and in widely diverse geographical regions. Thus, banks can change the face of insurance distribution. Hence, bancassurance can catalyst the growth of insurance in this huge untapped market.
Mishra, K.C. and Kumar, C.S.(2009) in their book on "Life Insurance Principles and Practice" explain the origin of insurance and its elementary aspects, principles of life insurance, life insurance products,

policy conditions, underwriting, pricing, policy servicing and policy benefit payments in a more clear and analytical manner so that a layman can understand the same without any ambiguity.

RESEARCH GAP

An analysis of the above mentioned literature indicates that most of the studies were understood to be confined mainly to an opinion poll on insurance awareness and marketing strategies of insurance products. Further, these studies assessed the performance of the insurance sector from a particular and a very specific dimension. No comprehensive study seems to have been undertaken so far to evaluate the performance of public and private sector insurance players in all respects.

STATEMENT OF THE PROBLEM

Evaluation is, generally, a method of assessing and identifying how far an activity or an operation of an organization has progressed. With regard to life insurance players in the Indian insurance market, it is more imperative to pursue the objectives in a more liberalized market scenario. The most important objectives are the spread of insurance awareness amongst prospecting public, increasing levels of insurance penetration and meeting rural and social obligations.

Many variables are responsible for growth in the insurance business and most important of these are the factors relating to financial, technology, quality of the product, personal and customer servicing. Besides, efficient internal manpower and operational policies, the operations of insurance companies are also influenced by the exogenous factors like the policies of the government, the IRDA, competition amongst public and private sector insurance players and several other economic conditions. These pose major challenges to the efficient functioning of the players.

The insurance companies are undertaking multi-faceted activities. Any evaluation of their performance has to take into account the entire stream of activities and functions performed by them. Against this backdrop, an analysis of the performance of the public sector LIC of India and the private sector 22 companies working in the Indian life insurance market in terms of these broad variables is very crucial and essential. Empirical findings on these variables for a period of one decade between public and private sector insurance players may be conducted to enable the managements of these companies to stay on top of its working position.

NEED FOR THE STUDY

An enquiry into the nature and factors responsible for performance of the LIC of India and also the private sector insurance players during the period 2000-01 to 2009-10 will be helpful in formulating the future course of action in the area of product innovation and development, asset-liability management and customer relationship management of the life insurance players in India.

This will enable the Government, IRDA, LIC of India, private sector players, employees, insurance marketers and the policyholders to know the causes underlying the existing position, to understand and appreciate the other stakeholders' attitude and to promote compromising and conciliatory behaviour which is the essential pre-requisite for the healthy growth of life insurance industry in our country. It is hoped that this study will be useful in the context of the imperative need for toning up the efficiency of the working of both the public and private sector units, which are expected to play a crucial role in the years to come and give a new outlook to the life insurance policy laid down by the Government and the IRDA.

Its aim is also to find out why certain deficiencies have occurred and how they can be avoided. It requires naturally a lot of objective assessment of the problems with the application of statistical techniques. It will also be useful to bring to light many aspects, with broader perspective, of the performance evaluation of the life insurance industry that contribute for higher insurance penetration and better customer service are brought to light.

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It is also hoped that the data presented, the observations made and conclusions arrived at in this study will be useful for inter-sectoral comparison, not only in the case of other players who newly entered and those who are proposed to enter in the years to come in the insurance sector. Therefore, a study of this sort is undertaken in a more judicious manner.

OBJECTIVES

Indian life insurance industry has undergone a sea change. It has experienced new challenges of intense competition and struggle for survival since the introduction of insurance reforms since 1999. The reforms in the insurance sector are continuous and they should be made more transparent, viable and sound in the changing economic environment. The future of the liberalized insurance industry is a big challenge to many stakeholders. The variables which reflect the growth and development aspects of the life insurance industry include among others new business, product development, social obligations, profitability, distribution channels and customer servicing. Hence, the major focus of the present study is on the following objectives:

- To study the patterns of growth and development of life insurance industry in India during a ten-year period (2001 to 2010) of insurance liberalisation and also opening up of the insurance to the private sector;
- To identify, select and analyze the variables determining the growth and development of life insurance industry in India during the study period;
- To study the performance of public and private sector life insurance units in a comparative manner on the basis of the selected variables;
- To find out the strengths and weaknesses of the life insurance players with regard to their performance in the post-liberalised scenario; and
- To suggest suitable measures, wherever necessary to the policymakers concerned for improving their performance, productivity and profitability.

METHODOLOGY AND USE OF STATISTICAL TECHNIQUES

The present study is mainly based on secondary data. The data are collected from the records and reports of the IRDA, LIC, Life Insurance Council and all the 22 private sector insurance companies. In addition, information is also elicited from the officers of the life insurance industry through personal interviews at different levels on different topics. Information is also collected from the books and periodicals of insurance importance from time to time during the study. The data published by different insurance consultancy organizations have also been used for this study. Further, information has also been collected by visiting the websites of different insurance players and also the Regulator where the information in some segments is lacking.

The data so collected from different sources have been analyzed by using the suitable statistical techniques like mean, standard deviation, skewness, correlation and regression analysis and incorporating values of the same in the relevant columns of the tables with line graphs, regression plots and scatter plots for arriving at meaningful and accurate conclusions on the stability and consistency in the growth rate and market share of both LIC and Private Sector life insurers during the study period. A linear mathematical model is also applied for comparing the observed figures with the linear trend values.

The mean is the sum of the values divided by the number of values. It is a type of arithmetic mean. The mean is often quoted along with the standard deviation. The mean describes the central location of the data. The standard deviation is a widely used measure of variability or diversity used in statistics and probability. It shows how much variation or dispersion exists from the average. A low standard deviation indicates that the data points tend to be very close to the mean, whereas high standard deviation indicates that the data points are spread out over a large range of values. The skewness is a measure of the asymmetry of the probability distribution of a real-valued random variable. The skewness value can be positive or negative or even undefined. A positive skew indicates that the tail on the right side is longer than the left side and the bulk of the values lie to the left of the mean. A negative skew indicates that the tail on the left side is longer than the right side and the bulk of the value lie to the right of the mean. A zero value indicates that the values are evenly distributed on both sides of the mean.

The scatter plot is a simple way to examine the data in correlation. This is a graph in which the horizontal axis (X-axis) represents one of the variables and the vertical axis (Y-axis) represents the other. If the points are totally scattered, there is no relationship between the two variables. If there exists linear or curvilinear relationship, then the variables are related. If the variables are perfectly related, they will form a straight line. If there is no relationship then r=0.0 or vice-versa.

In regression analysis, one variable is logically dependent on the other variable. The analysis provides the best fitting straight line through plot. To describe the line, we must have two pieces of information i.e., the slope of the line, b and the y-intercept of the line, a. The slope measures how much the y-variable changes for each unit of change in the x-variable (+ means the line rises and – means the line falls). The y-intercept tells us where the line starts (i.e. the value of y when x=0). We can use the formula for a straight line Y=a+bX. Regression plots are used.

If the significance value of the 'F' statistic is small (smaller than say 0.05) then the independent variables do a good job explaining the variation in the dependent variable. If the significance value of 'F' is larger than say 0.05, then the independent variables do not explain the variation in the dependent variable. R square value is the adequacy of the linear model which is judged with the help of a value called R square value. It is the square of the correlation coefficient and lies between 0 and 1. If the value of R square is high and close to '1', it may be said that the linear model is a good fit.

HYPOTHESES

In relevance to the objectives stated above, it is more imperative to formulate hypothesis highlighting the comparative analysis of the performance of both public and private sector life insurance players in India after liberalization. In fact, there is a lot of improvement with regard to the policies and practices of these insurance players after insurance reforms. Hence, the following hypotheses are made and subjected to testing in the study:

Ho_1: The liberalization of the life insurance sector is expected to increase the levels of insurance penetration and also to spread insurance awareness among larger segments of population;

Ho_2: The structural transformation of life insurance industry in India after opening up of the entry of new private insurance players has created intense competition to LIC. As a result, LIC is expected to re-design its traditional marketing and sales strategies to suit the needs of the customers for retaining its market dominance;

Ho_3: Liberalization of insurance sector in India has a significant role to play in the efficiency of the services rendered by the insurance players; and

Ho_4: Insurance sector reforms have enabled both the public and private sector life insurance players to apply the latest technology for more efficient delivery of services to customers.

PERIOD OF STUDY

The present study covers a period of ten years from 2000-01 to 2009-10 during which the implementation of the insurance sector reforms have been progressing. The period of one decade is considered, to some extent, a reasonable period for a study of this nature which seeks to identify the problems faced by the insurance players and to suggest measures wherever necessary that go a long way to make the Indian life insurance industry strong enough to overcome these problems. Though the year 2009-10 is the last year of the period of the present study, the quantitative and qualitative developments taken place after 2010 have also been incorporated at relevant places of the study to have an in-depth analysis and also for a proper interpretation of data. This is necessitated to arrive at meaningful and practical solutions to the problems which are very much dependable and highly worthy of consideration by the insurance players and also the Regulator.

ISSN:2251-1547

Growth of Total Income and New business of Private Life Insurers:

The private sector life insurance companies has been making rapid strides in terms of increasing their income and life insurance business in terms of total premium underwritten by private players by the end of 2010. Table 01 highlights the information on the growth rate of total income received by the private life insurers during 2002-2010. The private player shows an exorbitant growth rate in their total income in 2001-2002 and 2009-2010. It may also observe that the private insurers have gained good income on their investments and they spent heavy operating expenses. Initially increased income can be used only for wiping out off the operating costs.

TABLE 01 GROWTH RATE OF TOTAL INCOME RECEIVED BY THE LIFE INSURERS DURING 2002-2010

Year	Private Sector (Growth %)
2001-02	2.05
2002-03	221.44
2003-04	7.86
2004-05	6.05
2005-06	7.50
2006-07	4.51
2007-08	23.37
2008-09	336.81
2009-10	30.70

Source: Compiled from the Annual Reports of IRDA

Table02 shows data on the growth rate and market share of new business/first year premium underwritten by private life insurers during the period, 2000-01 to 2009-10. The private players have increased their first year premium by an annual growth rate of 259.65 per cent. This is because the private players have succeeded in establishing themselves in the insurance market through the adoption of intensive sales promotion methods. Afterwards, the private players have increased their premium collections marginally during 2008-09. However, their share also has increased from 35.98 per cent in 2007-08 to 39.11 per cent in 2008-09 despite a shortfall in their ULIP business. This shows its potential for tapping the untapped insurance market in our country. But, private sector's share has decreased to 34.92 per cent in 2009-10 due to its heavy slowdown in their ULIP business because of new regulations. On the whole, it may be observed that during the post-liberalization period, all the life insurers have recorded, on an average, a satisfactory growth in their business.

TABLE 02 GROWTH RATE AND MARKET SHARE OF NEW BUSINESS/FIRST YEAR PREMIUM UNDERWRITTEN BY LIFE INSURERS DURING 2000-01 TO 2009-10

(Rs. in crores)

Year	Private Sector	
	Amount	%
2000-01	6.45	0.07
2001-02	268.51 (4062.95)	1.35
2002-03	965.69 (259.65)	5.70
2003-04	2440.71 (152.74)	12.33
2004-05	5564.57 (127.99)	21.22
2005-06	10269.67 (84.55)	26.48
2006-07	19425.65 (89.16)	25.68
2007-08	33715.95 (73.56)	35.98
2008-09	34152.00 (1.29)	39.11
2009-10	38372.12 (12.36)	34.92

Note: Figures in brackets are the annual growth percentages

The International Journal's
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% indicates market share of the insurers
New Business/First Year Premium includes single premium also
Source: Compiled from the Annual Reports of IRDA

Operating expenses include employees' remuneration, welfare benefits and other manpower costs, travel, conveyance and vehicle running expenses, training expenses, rents, rates and taxes, repairs, printing and stationery, communication expenses, legal and professional charges, medical fees, auditor fees, expenses on advertisement and bank charges. Table 03 refers to the operating expenses as a percentage to premium underwritten by the life insurers during the years 2000-01 to 2009-10. It shows clearly that this percentage has increased marginally for LIC from 5.76 in 2008-09 to 6.58 in 2009-10. However, with regard to private insurers, this percentage has declined sharply from 25.83 to 20.86 during the period. For the industry as a whole, the percentage ratio of operating expenses to the premium underwritten has declined from 11.64 to 10.85 during 2008-09 to 2009-10, Further, the private insurers have particularly worked out to 23 per cent in 2006-07 whereas it is 23.25 per cent in 2007-08. The LIC's operating ratio has also been varied from 4.48 to 5.55 during this period.
Over the years, it is found that the absolute amount of operating expenses of the insurers has increased in consonance with an increase in the premium underwritten by them. But, the rationalization efforts of the insurers and a significant fall in ULIP business have brought down the ratio to some extent. Further, the implementation of the mandatory stipulations of the regulator on the expense management has reduced the absolute amount of operating expenses and also its ratio to the premium underwritten.

TABLE 03 OPERATING EXPENSES AS A RATIO TO PREMIUM UNDERWRITTEN BY THE LIFE INSURERS DURING 2000-01 TO 2009-10

(Rs. In crores)

Year	LIC			Private Sector			Total		
	Operating expenses	Premium Underwritten	Ratio (%)	Operating expenses	Premium Underwritten	Ratio (%)	Operating expenses	Premium Underwritten	Ratio (%)
2000-01	3706.56	34892.02	10.62	49.03	6.45	760.16	3755.59	34898.47	10.76
2001-02	4260.38	49821.91	8.55	419.37	272.55	153.00	4679.76	50094.46	9.34
2002-03	4571.76	54628.48	8.36	838.28	1119.06	74.90	5410.04	55747.55	9.70
2003-04	5186.50	63167.60	8.21	1402.44	3120.33	44.94	6588.94	66,28,7.93	9.93
2004-05	6241.26	75127.29	8.31	2229.47	7727.51	28.85	8470.73	82854.80	10.22
2005-06	6041.55	90792.22	6.65	3568.14	15083.54	23.65	9609.69	105875.76	9.07
2006-07	7085.84	127822.84	4.48	6500.01	28242.48	23.00	13585.85	156075.86	8.70
2007-08	8309.32	149789.99	5.55	11989.34	51561.42	23.25	20341.78	201351.41	10.10
2008-09	9064.29	157288.04	5.76	16659.60	64497.43	25.83	25827.32	221785.48	11.64
2009-10	12245.82	186077.31	6.58	16561.11	79373.06	20.86	28806.93	265450.37	10.85

Source: Compiled from the Annual Reports of IRDA

Statistical Analysis

A. LIC

i. Mean and Standard Deviation

Particulars	LIC Operating Expenses	LIC Premium Underwritten
No. of Years	10	10
Mean	6671.33	98940.77
Standard Deviation	2613.06	52502.57

The above table provides information on the average operating expenses spent by LIC. The amount spent on operating expenses, on an average, per year is Rs 6671.33 crores and the premium underwritten is Rs 98940.77 crores. The standard deviation of operating expenses is Rs 2613.07 crores and the premium underwritten is Rs 52502.57 crores during 2001-10.

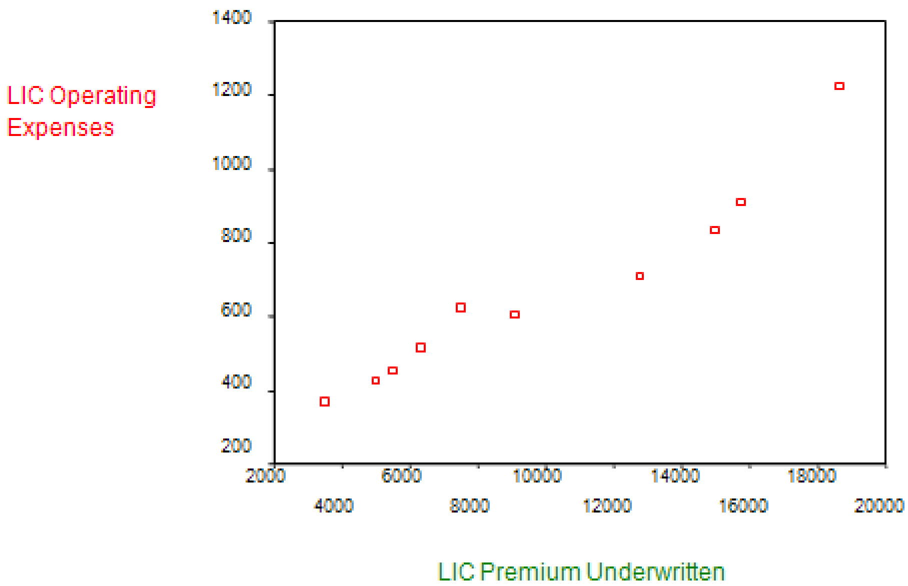


Figure A: LIC Operating expenses Scatter Plot

ii. Correlation

Particulars		LIC Operating Expenses	LIC Premium Underwritten
LIC Operating Expenses	Pearson Correlation	1	.964**
	Sig. (2-tailed)	.	.000
	N	10	10
LIC Premium Underwritten	Pearson Correlation	.964**	1
	Sig. (2-tailed)	.000	.
	N	10	10

**. Correlation is significant at the 0.01 level (2-tailed).

The table displays that the correlation coefficient for LIC premium underwritten and operating expenses is 0.964. Since 0.964 is relatively close to 1, this indicates that LIC premium underwritten and operating expenses are positively correlated. The significance level is small, i.e., 0.000 which is less than 0.01 and then the correlation are significant at 1% level of significance and the two variables are linearly related.

iii. Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1923.566	517.242		3.719	.006
	LIC Premium Underwritten	4.799E-02	.005	.964	10.276	.000

a. Dependent Variable: Lic Opreating Expenses

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.964[a]	.930	.921	735.47953

a. Predictors: (Constant), LIC Premium Underwritten

b. Dependent Variable: Lic Opreating Expenses

The linear trend forecasting equation is

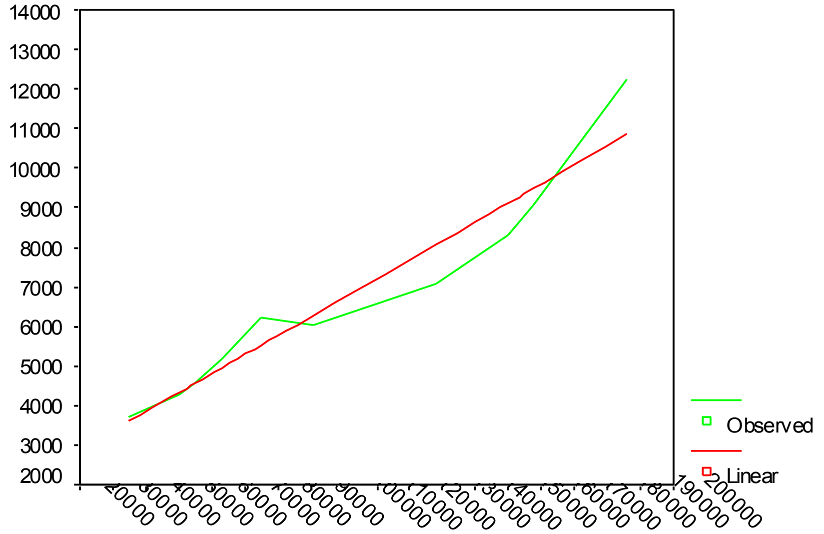
Operating Expenses = 1923.57 + 0.04799* Premium Underwritten

The regression coefficients are interpreted as follows:

- The Y intercept b_0= 1923.57 is the fitted trend value reflecting the predicted mean of operating expenses (Rs in Crores) of LIC during 2001-2010.
- The slope b_1 = 0.04799 indicates that operating expenses are predicted to increase by an average of 0.04799 Crores of rupees per year.

Table displays R, R squared, adjusted R squared, and the standard error. R, the multiple correlation coefficients, is the correlation between the observed and predicted values of the dependent variable (Operating Expenses). Larger value of R (0.964) indicates stronger relationship. R squared (0.930) is the proportion of variation in the dependent variable (Operating expenses) explained by the independent variable (Premium underwritten) in the regression model.

Regression Plot



The International Journal's
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B. Private Sector

i. Mean and Standard Deviation

Particulars	LIC Operating Expenses	LIC Premium Underwritten
No. of Years	10	10
Mean	6021.68	25100.38
Standard Deviation	6631.16	29653.96

The table provides summary statistics for continuous, numeric variables. Summary statistics include measures of central tendency such as the mean. From the above table, it is found that the average operating expenses is Rs 6021.68 crores and the premium underwritten is Rs 25100.38 crores. The standard deviation of operating expenses is Rs 6631.16 crores and the premium underwritten is Rs 29653.96 crores during 2001-10.

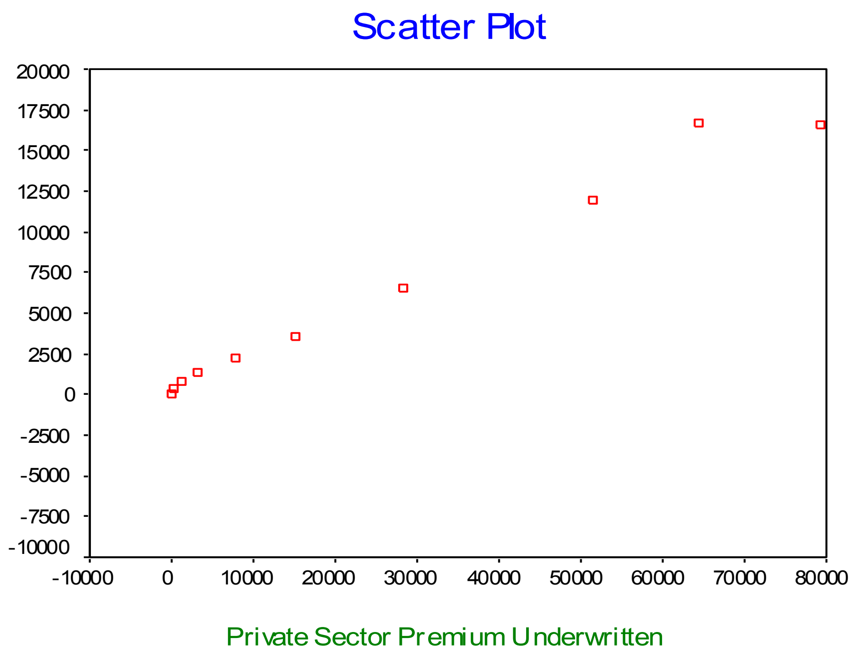

Figure C: Private Sector Scatter Plot

ii. Correlation

Particulars		Private Sector Operating Expenses	Private Sector Premium Underwritten
Private Sector Operating Expenses	Pearson Correlation	1	.992 **
	Sig. (2-tailed)	.	.000
	N	10	10
Private Sector Premium Underwritten	Pearson Correlation	.992 **	1
	Sig. (2-tailed)	.000	.
	N	10	10

**. Correlation is significant at the 0.01 level (2-tailed).

The table displays that the correlation coefficient for private sector premium underwritten and the operating expenses is 0.992. Since 0.992 is relatively close to 1, this indicates that the Private Sector premium underwritten and operating expenses are positively correlated. The significance level is

ISSN:2251-1547
The International Journal's
Research Journal of Commerce & Behavioural Science

small, i.e., 0.000 which is less than 0.01 and then the correlation is significant at 1% level of significance and the two variables are linearly related.

iii. Regression analysis

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	453.112	373.898		1.212	.260
	Private Sector Premium Underwritten	.222	.010	.992	22.370	.000

a. Dependent Variable: Private Sector Operating Expenses

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	.984	.982	882.24947

a. Predictors: (Constant), Private Sector Premium Underwritten

The linear trend regression equation is

Operating Expenses = 453.112 + 0.222 * Premium Underwritten

The regression coefficients are interpreted as follows:

- The Y intercept b_0 = 453.112 is the fitted trend value reflecting the predicted mean operating expenses (Rs in Crores) of Private Sector during 2001-10.
- The slope b_1 = 0.222 indicates that operating expenses are predicted to increase by an average of 0.222 crores of rupees per year.

Table displays R, R squared, adjusted R squared, and the standard error. R, the multiple correlation coefficients, is the correlation between the observed and predicted values of the dependent variable (Operating Expenses). Larger value of R (0.984) indicates stronger relationships. R squared (0.984) is the proportion of variation in the dependent variable (Operating expenses) explained by the independent variable (Premium underwritten) in the regression model.

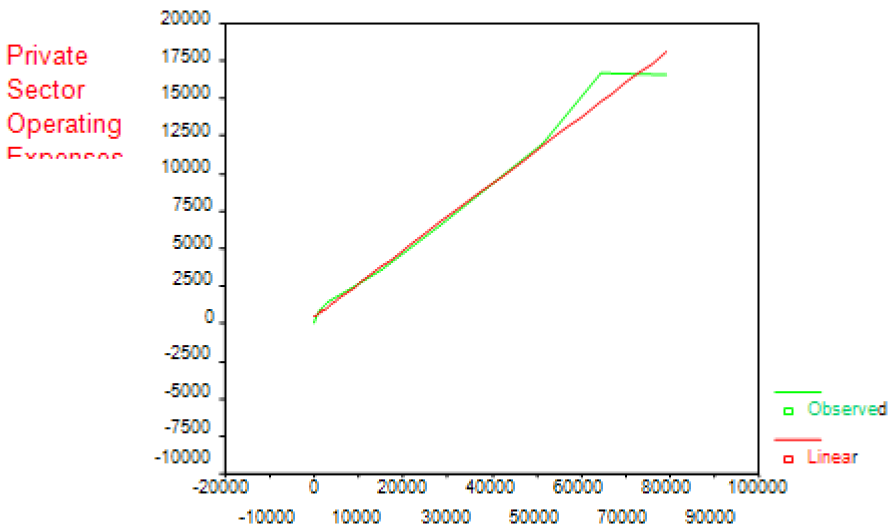

Figure D: Private Sector Regression Plot

The above Regression Plots of both LIC and Private Sector life insurers are fit to the linear mathematical model as the observed figures are nearer to the linear trend values. Their significance values are less than 0.05. The 'R' squared values are also close to 1. As such, the LIC and the Private

Sector life insurers can increase their spending, on an average, by Rs.0.04799 crores and Rs. 0.222 crores respectively towards operating expenses as a way to meet the linear mathematical line requirement per year for maintaining stability in expenses in relation to premium underwritten.
A life insurer expects to cover its expenses through the loadings on premium rates from conventional business and the charges it levies on unit-linked business. Any excess of the actual expenses over the expense loadings in the premium rates and the charges on unit-linked business, on account of initial expense overrun results in deficit in the Revenue Account, i.e. Policyholders' Account. Funding the deficit in the Revenue Account requires injection of additional capital at regular intervals.
The paid-up capital of an insurance player is an important input factor for achieving its objectives. This is more so with regard to the private insurers who have to spend a lot of amount for establishing their organizations and putting them in the right path. Generally, the insurers with higher paid-up capital can expend more amounts in expanding their markets and also for attracting a good number of insurance potentials.

An analysis on the paid-up capital of the life insurers during the period from 2000-01 to 2009-10 is presented in Table 04. It can be observed from the Table that the paid-up capital of the life insurance industry had been increased from Rs.545 crores in 2000-01 to Rs.21020 crores in 2009-10, a thirty-nine time increase over a decade. The market share of the insurers shows that the private insurers register a 99.98 per cent share and the LIC only 0.02 per cent share. The total incremental capital is brought in completely by the private sector players.

There is no addition to the paid-up capital of LIC because for raising capital by the Corporation, it requires an amendment to the Insurance Act, 1938. Though the Corporation has a smaller paid-up capital, it does not in any way affect the fulfillment of the promises as the Corporation is financially strong and profitably well-structured it is a welcome move that the Central Government passed the LIC (Amendment) Bill, 2009 which empowered the Corporation to increase equity, open offices and avail sovereign guarantee.

IRDA came out with guidelines allowing life insurance companies, which have been in business for over ten years, to raise funds from the public through initial public offerings. The IRDA, however, will decide the size of the public issue. As per the guidelines, promoters of the insurance companies will also be allowed to offload their stake in the company. The insurance regulator would prescribe the extent to which the promoters shall dilute their respective holding and the maximum subscription which could be allotted to any foreign investors.
No doubt, it is a welcome move on the part of the Regulator to make the private insurers to solve some financial problems for expanding insurance business.

The way in which the companies source this additional capital and also its cost is a big issue. Insurance has a long gestation period and returns start only after five to ten years which complicates rising of new capital. Bigger insurers might garner additional capital without difficulty but smaller companies may find it difficult.

Table 05 shows data on the accretion of capital by the private life insurers during 2001-02 to 2009-10. It is clear from the Table 05 that the Private players deployed Rs.2, 765.22crore of additional capital into the business during 2009-10. A maximum amount of Rs.5, 958.35crore equity capital was infused by the private players during 2008-09. During 2007-08, an amount of Rs.4,172.01 crore was added to their equity capital base by the private life insurers which represented higher annual growth rate of 86.89 per cent over the previous year's accretion. The total capital deployed by the private insurers up to 2009-10 was Rs.21, 014.99crore. It was Rs.18, 249.77croreup to 2008-09 and Rs.12,291.42crore up to 2007-08. These figures show that the private insurers contribute a significant and largest proportion to the total equity share capital of the life insurance industry.

The International Journal's
Research Journal of Commerce & Behavioural Science
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TABLE 04 GROWTH RATE AND MARKET SHARE OF LIFE INSURERS IN THE TOTAL PAID-UP CAPITAL DURING 2000-01 TO 2009-10

(Rs. in crores)

Year	LIC		Private Sector		Total	
	Amount	%	Amount	%	Amount	%
2000-01	5.00	0.92	539.79	99.08	544.79	100.00
2001-02	5.00 (0.00)	0.30	1,664.00 (208.27)	99.70	1,669.00 (206.36)	100.00
2002-03	5.00 (0.00)	0.22	2,229.13 (33.96)	99.78	2,234.13 (33.86)	100.00
2003-04	5.00 (0.00)	0.15	3,238.71 (45.29)	99.85	3243.71 (45.19)	100.00
2004-05	5.00 (0.00)	0.11	4,347.81 (34.25)	99.89	4,352.81 (34.19)	100.00
2005-06	5.00 (0.00)	0.08	5,887.05 (35.40)	99.92	5892.05 (35.36)	100.00
2006-07	5.00 (0.00)	0.06	8,119.41 (37.92)	99.94	8,124.41 (37.89)	100.00
2007-08	5.00 (0.00)	0.04	12,291.42 (51.38)	99.96	12,296.42 (51.35)	100.00
2008-09	5.00 (0.00)	0.03	1,8249.77 (48.48)	99.97	18,254.77 (48.46)	100.00
2009-10	5.00 (0.00)	0.02	2,1014.99 (15.15)	99.98	21,019.99 (15.15)	100.00

Note: Figures in brackets are annual growth rate percentages
% indicates market share of the insurers
Source: Compiled from the Annual Reports of IRDA

TABLE 05 ACCRETION TO EQUITY CAPITAL BY PRIVATE INSURERS DURING 2001-02 TO 2009-10

(Rs. in crores)

Year	Opening Balance	Accretion	Closing Balance
2001-02	539.79	1124.21	1664.00 (208.27)
2002-03	1664.00 (208.27)	565.13 (-49.73)	2229.13 (33.96)
2003-04	2229.13 (33.96)	1009.58 (78.65)	3238.71 (45.29)
2004-05	3238.71 (45.29)	1109.10 (9.86)	4.347.81 (34.25)
2005-06	4347.81 (34.25)	1539.24 (38.78)	5887.05 (35.40)
2006-07	5887.05 (35.40)	2232.36 (45.03)	8119.41 (37.92)
2007-08	8119.41 (37.92)	4172.01 (86.89)	12291.42 (51.38)
2008-09	12291.42 (51.38)	5958.35 (42.82)	18249.77 (48.48)
2009-10	18249.77 (48.48)	2765.22 (-53.59)	21014.99 (15.15)

Note: Figures in brackets are annual growth rate percentages
Source: Compiled from the Annual Reports of IRDA

The net profit or net loss is estimated through the comparison of net liability at a particular point of time with the available funds at that time. If the funds are more than the net liability, a part of the excess can be distributed as bonus or as a dividend to shareholders. How much the amount will be distributed depends upon the amount of surplus at that time?.

As the surplus is a cash sum, being the excess of the funds over net liabilities brought out by valuation, the surplus is not profit. After setting aside certain portion of surplus to various funds the amount which is left with the insurer may be called 'profit'.

Table 06 shows the profitability position of private life insurers after opening up of the insurance sector to them in India. Out of 22 private insurers in operation, seven insurers have reported profits in 2009-10. These are ICICI Prudential, Kotak Mahindra, SBI Life, MetLife, Bajaj Allianz, Sahara India and AegonReligare.

However, the accumulated loss of the life insurance industry as on 31st March, 2010 is on the increase, i.e. from Rs.17,304 crore to Rs.20,143 crore over the previous year, though the number of loss making firms comes down from 17 to 15 during this period. It is observed that most of the private insurers, at present, are in the process of restructuring their operations to bring down their operating costs. This may ensure to some extent, to wipe off some of their accumulated losses in future.

Profit is an important parameter to measure the financial performance of life insurers Table 07 shows information on the profit after tax as a percentage to the premium underwritten by the life insurers during 2000-01 to 2009-10. It indicates clearly that LIC has been earning profits after tax for the last so many years. But, the percentage ratio of profit after tax to the premium underwritten has declined from 0.91 to 0.57 during the period. During 2001-02, the ratio has been the highest, i.e. 1.65 per cent. This shows that LIC had a faster growth. This is an after-effect of opening of the insurance to private sector and also owing to the consumer campaigns which the new insurers and the IRDA have been carrying on for increasing the insurance awareness levels. With regard to private sector units, some insurers earned profits. But, their profit after tax shows a negative figure because the tax amount paid by the insurers to the Government is significant and exorbitant and consequently nullifies profit.

TABLE06 PROFITABILITYPOSITION OF PRIVATE LIFE INSURERS DURING 2000-01 TO 2009-10

Year	Number of Private Life Insurers		
	Profit-earning	Loss-incurring	Total
2000-01	1	3	4
2001-02	2	9	11
2002-03	3	9	12
2003-04	0	12	12
2004-05	0	13	13
2005-06	2	12	14
2006-07	2	13	15
2007-08	4	13	17
2008-09	4	17	21
2009-10	7	15	22

Note: The profit earning position of the private insurers has not considered the deficit in the policyholders' account.

Source: Compiled from the Annual Reports of IRDA

The target of insurers is to increase revenue and achieve greater profitability by lowering process costs and attracting more customers to the organization. Hence, an insurer must plan and organize the business to ensure the long-term profitability which enables him to provide funds for investments, ensuring payment of dividends to stakeholders and obtain high quality ratings from insurance rating agencies. It also provides funds to develop products, product lines, distribution channels and for expansion and acquisition.

TABLE 07 PROFIT AFTER TAX AS A PERCENTAGE TO PREMIUM UNDERWRITTEN BY LIFE INSURERS DURING 2000-01 TO 2009-10

(Rs. In crores)

Year	LIC			Private Sector		
	Profit After Tax	Premium Underwritten	Ratio (%)	Profit After Tax	Premium Underwritten	Ratio (%)
2000-01	316.65	34892.02	0.91	-26.10	6.45	-404.65
2001-02	821.79	49821.91	1.65	-227.80	272.55	-83.58
2002-03	496.97	54628.49	0.91	-386.33	1119.06	-34.52
2003-04	551.81	63533.43	0.87	-966.38	3120.33	-30.97
2004-05	708.37	75127.29	0.94	-873.20	7727.51	-11.30
2005-06	631.58	90792.22	0.70	-1102.48	15083.54	-7.31
2006-07	773.62	127822.84	0.61	-1933.22	28242.48	-6.85
2007-08	844.63	149789.99	0.56	-4257.44	51561.42	-8.26
2008-09	957.35	157288.04	0.61	-5840.35	64497.43	-9.06
2009-10	1060.70	186077.31	0.57	-2049.52	79373.06	-2.58

Source: Compiled from the Annual Reports of IRDA.

Challenges:

i) The biggest challenge before the private life insurer is in a competitive environment amongst life insurers a wide-variety of insurance products, professional consultancy and customer focused service are some of the benefits available to customers. Every time the insurer has to constant touch with the customer's needs and expectations. The competition among insurance players has created increased insurance awareness and also helped to expand the insurance market. Hence, all the private players should have to increasing the efficiency in order to stand before Giant Corporation of LIC.

ii) The private insurers sometimes ignore the standards, rules and regulations framed by IRDA. They are following best practices to reach the target customers. Hence, to supervise the business activities of the insurers and also to guide them in the proper perspective, the place of a regular assumes dire importance. In the age of extensive competition, the insurance companies are required to work hard to have a competitive edge over others.

iii) In initial stage the private players were aggressively expansion of their branches across the India. Due to this they have unbearable huge amount of operating cost whereas the LIC is having wide network and there is no need opening of new branches. In this regard most of the private players are in loss only and they are in the process of restructuring their operations to bring down their operating costs. This may ensure to reduce their accumulated losses in future.

iv) Lack of proper machinery to settle the claims are also very low. As the LIC has got adequate staff, network and expertise to settle the claims, the percentage of claims repudiated and pending is very less.

v) The Private players are taking undue time for redressing complaints due to the paucity and also inefficiency of the staff involved in the process of complaint management in private sector units. Many complaints are pending with them for a longer period of time. Hence, the private players will get experienced and well-exposed staff to attend complaints immediately and as such the complaints are redressed properly.

vi) The high costs of distribution are imminent because the agents have to travel to remote corners of the country, building awareness among rural masses, motivating them to insure their lives. It is undoubtedly a great financial constraint to many insurance companies. The life insurers are doing mostly retail business. Insurance marketing involves a high degree of involvement of the insurance agents. The insurance agents demand that the insurance companies support them through proper, timely and adequate insurance advertising. Distributors like individual agents and brokers can be encouraged to maintain their own offices to receive service requests, complains and suggestions from policyholders. LIC of India has already taken many measures on this. The private insurers have also to provide necessary facilities to respond to the customers regularly.

Conclusion:

It is therefore, by the expansion of population, increase in private sector life insurance companies up to 23 and insurance density as a premium to population from 7.60 to 52.70 and the contribution of private sector in Gross Domestic Saving rose up to 9.5. It is clearly evidenced by a favorable economic atmosphere present in the Indian economy and it creates a strong foundation for the development of life insurance industry in India.

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