

GROWTH OF LIFE INSURANCE BUSINESS: AFTER LIBERALIZATION**Ali Mehandi**

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Insurance Industry in India: A Historical Perspective

The history of insurance in India can be traced with the establishment of a British company called the Oriental Life Insurance Company in 1818, followed by the Bombay Assurance Company in 1823, and the Madras Equitable Life Insurance Society in 1829. It was owned and operated by the British. The first indigenous general insurance company was the Indian Mercantile Insurance Company Limited set up in Bombay in 1907 (Sinha, 2005; Sharma and Agarwal, 2005). The wholly Indian-owned insurance company, namely, The New India Assurance Company Limited was incorporated on July 23, 1919 which commenced its operations in October the same year (Narayanan, 2006).

Though a number of statutory laws and insurance Acts were passed from time to time to regulate and control the business, yet as many as 66 out of 215 life business companies perished between 1935 and 1955. This was largely due to growing business mismanagement and malpractices, manipulation of life funds to indulge in speculative trading, large scale liquidation of insurance companies, interlocking of funds, and control and influence of large business houses which led to public disenchantment and resentment (Rajan and Dhunna, 2002). This led to the nationalization of life insurance by amalgamating all private companies under one corporation, i.e., L.I.C. Government of India nationalized the General Insurance sector w.e.f. 1st January, 1973. It formed four subsidiaries, namely, (1) The New India Assurance Company Ltd., (2) The Oriental Insurance Company Ltd., (3) The National Insurance Company Ltd., and (4)

The United India Insurance Company Ltd.. with a holding company General Insurance Corporation of India.

After Liberalization

The Government of India liberalized the insurance sector in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. After liberalization of insurance sector private insurers are making waves. They have beaten all the forecasts. The type of growth rate they have achieved for themselves has no parallel on the globe. In the year 2000-01, when the insurance industry was opened up to the players, the life insurance premium was Rs34898.48 crore. The premium income for the life insurance segment has grown 2252% between 2000-01 and 2011-012. This paper will highlight the market share of LIC of India after the liberalization period. It uses a panel dataset of most of the life insurance companies working in India over the period 2001-12, to evaluate the growth and market share.

The insurance market was opened in August 2000 and the initial batch of new registrations was granted for the first time on 23rd October, 2000. Many of the new companies had not started doing business by the end of March 2001. The number of policies and the amount of premium collected by the private insurers was very little. Table-1 shows the performance of only public sector life insurance company LIC of India before the liberalization i.e. during 1998 to 2000. The corresponding Table regarding the number of policies and the amount of sum assured during this period have been shown in Table.

TABLE 1

INSURANCE BUSINESS OF LIC OF INDIA BEFORE LIBERALIZATION

Year	No. of policies (in lakhs)	Annual growth rate in No. of policies (%)	Sum assured (Rs. cr)	Annual growth rate in Sum assured (%)
1998	849.2	9.33	3,98,959	16.31

1999	916.4	7.91	4,57,435	14.66
2000	1,013.00	10.54	5,24,589	14.68

Source : Annual Reports LIC of India

From the above table and graph it is observed that both the sum assured and number of policies issued by LIC of India was increasing steadily in 1998. The annual growth rate of number of policies was around 10% whereas the annual growth rate of sum assured was around 16% during the pre-liberalization period.

The performance of the life insurance sector was now measured in post liberalization period from 2001 to 2012 after entry of private sector insurance companies in the market in Table -2.

TABLE-2

TREND OF LIFE INSURANCE BUSINESS IN INDIA IN THE POST REFORM ERA

Year	Total No. of Policies	Annual Growth Percentage	Amount of Premium collected in Rs Lakhs	Annual Growth Percentage
2001	19683000	---	1220,106.33	—
2002	22526838	14.45	5009445.94	310.57
2003	25370675	12.62	5574755.09	11.28
2004	28626916	12.83	6628792.81	18.91
2005	26211198	-8.44	8285479.80	24.99
2006	35462117	35.29	10587576.15	27.78
2007	46151566	30.14	15607586	47.41
2008	50874157	10.23	20135141	29.01

2009	50924000	0.10	22178548	10.15
2010	53225000	4.52	26545037	9.69
2011	48152000	-9.53	291604.99	9.85
2012	44193000	-8.22	287072.11	-1.57
Total	451400467		122,351,145.22	

Source : Annual Reports of Insurance Regulatory Development Authority (IRDA).

The above table and graph shows that after the liberalization of insurance industry, both the number of policies and annual premium collected have increased significantly. The total number of insurance policies sold increased from 19683000 in 2001 to 22526838 in 2002. This clearly indicates an increase of the total numbers of policies by 14.45%. The increase has continued annually till 2004 and in 2004 the total numbers of policies sold by both the Life Insurance Corporation and other private insurers has reached 28626916. Surprisingly in 2005 the total numbers of policies sold has reduced by 8.44%. But again the increasing trend of numbers of policies sold continued from 2006 to 2010. In 2012 the total number of policies sold both by the public and private sector insurance companies have declined to 44193000. During 2011-12, life insurers issued 442 lakh new policies, out of which LIC issued 358 lakh policies (80.90 per cent of total policies issued) and the private life insurers issued 84 lakh policies (19.10 per cent). While LIC suffered a decline of 3.47 per cent (4.70 percent decline in 2010-11) in the number of new policies issued against the previous year the private sector insurers continued the previous year's experience of significant decline and reported a dip of 24.04 per cent (22.61 per cent decline in 2010-11) in the number of new policies issued. Overall, the industry witnessed 8.22 per cent decline (9.53 per cent decrease in 2010-11) in the number of new policies issued. Within the 12 years of liberalization there has been a growth in the numbers of policies sold by 124.52% which shows that the annual average growth in issue of numbers of policies is 10.38% at thought last two year the growth rate is negative for different factors like Economic slow down and not increasing the saving limit is the income tax act. It is quite satisfactory achievement and may be attributed to the impact of liberalization policy.

The premium collected is also correlated with the numbers of policies issued. The total, insurance premium collected by the public and private insurance companies has also increased

significantly within the 12 years starting from 2001 to 2012. In 2001 the total insurance premium collected by the insurance industry was 1220,106.33 as against the collection of premium of Rs. 287072.11 in 2012. In this period i.e from 2001 to 2012 the growth in premium collection was -1.57% as compared to 2001. However, thereafter, the total premium collected has increased steadily at a moderate rate every year till 2010. but in last year marginally negative shows that after liberalization the private insurance companies have contributed a lot to the insurance industry. The growth in the year 2003 and 2004 was 11.18% and 18.91% respectively. In 2005 even though the total numbers of policies sold shows a decreasing trend the total insurance premiums amount has increased by 25% over the previous year; and reached Rs 8285479.80 lakhs. It shows that the relationship between the numbers of policies issued and the premium collected is not positively correlated in that particular year 2005. The increase in the total premium collected were 27.78% in 2006, 47.41% in 2007, 29% in 2008, 10% in 2009 and 19.69% in 2010 and 2011 9.85% in 2012 negative growth rate of -1.57%.

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