Emerging Trends and Challenges in Life Insurance Industry in India

Swaroopa Jetti

Abstract: ***Insurance has a long history in India. Life Insurance in its current form was introduced in 1818 when the Oriental Life Insurance Company began its operations in India. History of Insurance in India can be broadly bifurcated into three eras: a) Pre-Nationalization b) post-Nationalization and c) post-liberalization. Life Insurance was the first to be nationalized in 1956. The rapid expansion of Insurance companies since nationalization has given rise to a number of problems related to the image, operational efficiency, productivity, distribution, and the quality of the portfolio of the system as a whole. Liberalization and privatization of the insurance sector have offered tremendous opportunities and since the onset of reforms, the life insurance corporation has been compelled to review philosophy and method of working, in order to be ready for competition with private sector companies. The present study attempts to evaluate the emerging trends in the growth, performance, and issues, challenges facing by the life Insurance industry in India. The study reveals that the life insurance market has witnessed dynamic changes due to liberalization and privatization of the insurance sector and the industry witnessed significant growth, which is mainly contributed by both private sector and public sector. The study further reveals that the Private Sector life Insurance Companies' results present better efficiency in terms of expenses of management ratio, and they are increasing their market share year by year, and the distribution of offices expanded. Whereas the performance of Public Sector in terms of net earnings, and return on net worth ratio is better than Private Sector and in case of operating expense ratio also better than the private sector, public sector is also playing a major role in contributing the Premium Income in the life insurance industry. The study highlights that private sector insurance companies are suffering from losses when it comes to their core insurance business, but still manage to get net earnings, which is mainly ascribed to the investment income. The study concludes that, undoubtedly, the entry of Private Sector Insurance Companies has contributed to the strengthening of life Insurance business as a whole by creating a competitive atmosphere, but still public sector is plying dominant role in the Indian life insurance industry. But when comes to the issues and challenges, total industry (both private and public sectors) facing challenges like low penetration and density, low rural market share, low satisfaction of customer services, Delayed Break-even for Private Insurance Companies, Money laundering, Distributional Channel problems, Marketing of Products through Online Issues, Regulatory Challenge and so on.***

Keywords: life insurance, pre, and post-nationalization, reforms in insurance, and trend analysis, issues and challenges.
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1. Introduction

The insurance sector is a major contributor to the financial savings of the household sector in the country, which are further channelized into various investment avenues. Insurance sectors in India have experienced a 360-degree journey over a period of more than a hundred years. Its transition from an open competitive sector to nationalization and then back to a liberalized market characterizes this phenomenon.

2. Historical Review of Indian Life Insurance

The perception of life insurance had been existed since the ancient time in India in different forms. The uses of insurance were also mentioned in the Rig-Veda by the Aryans. The origin of insurance has been in the form of marine insurance just like in other countries and there was a system of marine insurance for the protection from sea hazards. Religious and spiritual approaches of the people were the main hurdles in the way of top-level development of life insurance. An organized effort for the development of life insurance in India was started in 1870. In this year, Mutual Life Insurance Society Limited was established in Bombay. Life Insurance in its modern form came to India from England in the year 1818. The Oriental Life Insurance Company was started in Calcutta by Europeans as the first Life Insurance Company. Later with the efforts of eminent people like Baba Muttylal; the foreign life insurance company started insuring Indian lives. The Swedish (indigenous) movement of 1905 also affected life insurance. The first decade of the 20th century was the period of fast development of the insurance business and many new companies were established in that period. The development of life insurance business was also blocked during the time of the First World War. But along with the changing circumstances during the war period, new insurance companies were established firms like New India, Jupiter, and Lakshmi. In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including Provident Insurance Societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938, with comprehensive provisions for effective control over the activities of insurers. The Insurance Amendment Act, 1950, abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices, 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. Life Insurance Corporation in 1956.

An Ordinance was issued on 19th January, 1956, nationalizing the Life Insurance Sector, and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 Provident Societies - 245 Indian and foreign insurers in all. The LIC had its monopoly till the late 90s when the Insurance sector was reopened to the private sector. Before that, the industry consisted of only two state insurers: Life Insurers (Life Insurance Corporation of India, LIC), and General Insurers (General Insurance Corporation of India, GIC), GIC had four subsidiary companies. However, the Government made a paradigm shift in the economic policy by adopting the process of liberalization, privatization and globalization at the end of the previous decade. Consequently, a committee was set up under the chairmanship of Mr. Malhotra, Ex-governor of RBI, for undertaking various reforms in the insurance sector in the light of new economic policy. The Committee, which submitted its report in 1993 recommended the establishment of a special regulatory agency along the lines of SEBI and the opening of the insurance industry in the private sector.

The committee further recommended for enacting of the Insurance Regulatory and Development Authority (IRDA) Act in 1999, and established IRDA to regulate the insurance business in the country. As a result, the private sector was allowed entry both in general and life insurance sectors in India. IRDA also allowed foreign participation up to 26% in equity shareholding of private companies. Recently it has increased to 49%. As a result, many companies (both in general and life insurance) got themselves registered with IRDA to operate in India. Presently, twenty-three life insurance companies are operating in the private sector, in addition to LIC from the public sector, and twenty-seven non-life insurance companies are operating in the private sector in addition to six companies from the public sector.

While the effects of privatization and globalization on the life insurance firm's performance have received the bulk of attention in the national and international business research and has suggested that liberalization has a positive long-term effect on economic growth and firm's performance, except the last couple of years. (Dollar, 1992; Sachs and Warner, 1997; Chennappa, 2006; Sinha, 2006; Detzel & Banerjee, 2008; Anshuja and Babita, 2012). Relatively little has been said about emerging trends and challenges of life insurance industry in India in the post-reforms period. The present study seeks to fill the research gap and attempts to analyze the growth, emerging trends, and challenges for life insurance industry in India in the post-liberalization period.

3. Review of Literature

1) (Kannan, 2010). The growth of Insurance in India was very low in the pre independence. After the nationalization of Insurance in 1956, which gave it a formal shape of an industry.
2) (Sonika & Kiran, 2011), Life insurance industry expanded tremendously from the year 2000 onwards in terms of number of offices, number of agents, new business policies, premium income etc.
3) Selva and Priyan (2011). India was in 20th place in the global insurance league table when the market opened to private players in the year 2000, moved up to 11th place in 2010.
4) (Shilpa & Runa, 2006),). The opening up of the insurance sector has led to the rapid growth of the sector. Insurance sector achieved rapid growth after the adoption of liberalization policies.
5) Krishnamurthy (2005), India was one of the least insured countries in the last few decades of the 20th century. At this juncture, opening of the insurance sector to private companies viewed with optimism and aimed at fostering competition and innovation through a greater variety of products.
6) Sanjay (2012) argues that developed countries have higher rate of insurance penetration, whereas developing and underdeveloped nations have a relatively lesser rate of it.
7) Rajendran & Natarajan (2009) found that the businesses in India, the business outside India as well as the total business of LIC are always in an increasing trend and the LPG is incorporating a positive influence on LIC of India and its performance.
8) Harpreet and Preeti (2011). The LPG is making a positive influence on LIC of India and its performance.
9) But Anshuja and Babita (2012) argue in an exact opposite way. The private insurance companies are expanding their business and giving tough competition to LIC. It is also revealed that the market share of LIC declined to 70.10% in 2009-10 from 99.46% in 2001-02. Sanjay (2012) also derived similar conclusions.
10) Srujan (2006) made an attempt to explore the current situation in the Insurance industry, and particularly in rural India this study observed that divergence in the penetration level of the urban and rural insurance markets. There is a significant difference in the insurance coverage in these two markets.

4. Need of Study

In traditional societies in India, the joint family system itself used to provide insurance and security to the family members. The combined management of finances used to protect the individual and his wife and children under the joint family system, in the extreme case of his sudden demise. But now with the growth of nuclear families and modern style of living, the individual and his family face many risks and require some external support in case of an accident or sudden demise. The human life has become very unpredictable. The above unpredictability is due to human aggressive and violent behavior, but there is another element which shapes human life - that is nature. For ages human efforts to understand nature have its ups and downs. But nature never lets us understand it and we, humans ourselves, in the name of modernism, destroying the balance of nature around us. In a way, to survive in this erratic world and hedge the risks faced by us require some form of insurance, be it government-sponsored or self-sponsored. As the human needs increased, insurance cover has also increased in different dimensions. More and more new innovations and products are entering the market. With this explosion of new products, technologies, and practices, players and regulators brought out plenty of issues which are to be analyzed in a systematic way and find some amicable solutions. Here, various issued were highlighted and were studied analytically. Today, the insurance industry is one of the fastest growing industries in the country and offers unlimited growth potential for the insurance sector. The low performance, poor customer services, ineffective marketing techniques, low insurance penetration and density are some of the problems facing the insurance sector.

When compared with the developed foreign countries, the Indian insurance industry has achieved only a little because of the lack of quality strategies adopted by the insurance industry, lack of standard education and awareness about savings, low per capita income and lack of employment opportunities. Since the introduction of new economic policy (LPG) in the year 1991, the shape of the Indian insurance industry has changed and it has geared up. The huge and ever rising population levels in our country provide an attractive opportunity for the global insurance majors to seek their fortunes here. That is the reason why we find so many private players today competing with the insurance sector in India.

Hence the present study has been taken up to analyze the present trends in post-liberalization period, and the benefits to the industry after opening up of the sector to the private and foreign insurers and emerging issues, challenges faced by the Indian insurance sector since LPG era.

Objectives of study

1) To study the emerging trends in the growth and performance of life insurance industry in India.
2) To highlight the issues and identify the challenges faced by the Indian life insurance industry.

Trend analysis of life insurance sector in India

Today, trend analysis often refers to the science of studying changes in social patterns. Trend Analysis is the practice of collecting information and attempting to spot a pattern, or trend, in some fields of study. The “trend analysis” is used for comparing one year with another year. In the analysis given below we have taken three periods, namely, pre-nationalization period, post-nationalization period, and post-reform period. The intention is to compare one period to another, and one year to another, and to see how trend percentages and growth increase or decrease, and to study the changes that have taken place in the industry, and how it helps for the development in the economy. This method is suitable to compare different years at a time. Also, this is easy to understand and easy to calculate. The present study trend analysis in the life insurance industry is explained below.

The trends and changes in the life insurance industry are analyzed by dividing the whole period into three parts - first, pre-nationalization period; second, post nationalization period; and third, post-reform period. The study mainly focuses on the post-liberalization period, which is from the year 2000 to 2013. To capture the emerging trends and changes in the life insurance industry, we have employed the following indicators - penetration, density, market share, total premium income, investments, operating expenses, profits, number of offices, number of companies, etc.

Table 1: Life Insurance Business in Pre-Nationalization Period

Year	1914	1915	1920	1925	1930	1935	1940	1945	1950	1955
No. of insurers	49	-	-	-	-	-	-	215	-	245
No. of Indians	36	40	43	49	110	215	179	198	185	149
New business										
No. of policies (000)	-	-	28	43	145	239	206	599	498	831
Sum Assured (Rs crore)	3.2	2.25	5.16	8.15	27.5	43.5	36.11	136.3	139.5	260.8
Total business										
No. of polices (000)	-	-	-	-	564	1095	1553	2392	3280	4782
Sum assured (Rs Crores)	-	-	-	-	124	235	286	557	780	1220
Life fund (Rs Crores)	6.36	6.77	8.47	12.57	20.53	35.19	62.41	107.4	181.5	299.7

Source: Indian Insurance Year Book, Agarwala (1961:21-73), Bhave (1970:340-51)

The above table explains **Life Insurance Business in Pre-Nationalization Period 1914 to 1955.** The no. of Indian insurance companies was 36 out of 49 total insurance companies that existed in 1914. The number of Indian companies increased to 198 by 1945 but came down to 149 in 1955. The total number of insurance companies in 1955 was 245. The total premium was only Rs 3.2 crores in 1914. It increased to Rs 43.5 crores in 1935 and then it reached Rs 260.8 crores by 1955. The number of new policies grew from 28,000 to 8, 31,000 during the period 1920 to 1955. The total number policies in 1930 was 5, 64,000 which grew to 47, 82,000 by 1955. The total Life fund was Rs 6.36 crores in 1914 which increased to Rs 299.7 crores by 1955. On the whole, life insurance had moderate growth in the pre-nationalization period and the reach of insurance was rather unsatisfactory. The coverage was very low and the insurance business underwent a lot of challenges during this period.

Post nationalization period

Table 2: Financial Performance of LIC- 1957 to 2001(Rs. Billions)

Year	1957	1963	1972-73	1982-83	1992-93	2001-02
Income						
Total premium income	0.886	1.511	3.897	12.18	179.872	498.22
Income from investment including misc. income	0.193	0.357	1.366	6.894	42.57	239.6
Total income	1.079	1.863	5.263	19.074	122.442	737.82
Expenditure						
Commission, etc to agents	0.077	0.141	0.368	1.027	7.726	45.94
Salaries & other benefits to employees	0.122	0.223	0.581	1.197	7.998	31.62
Other expenses of management	0.046	0.079	0.137	0.39	2.56	9.21
Taxes etc	-	-	0.002	0.538	4.227	11.36
5 % valuation surplus paid to government	-	-	-	-	1.054	8.14
Payments to policyholders						
Claims by maturity	0.208	0.318	0.77	3.507	22.436	122.15
Claims by death	0.079	0.126	0.261	0.864	5.082	21.42
Annuities	0.005	0.004	0.015	0.078	1.042	10.082
Surrenders	0.044	0.051	0.192	0.782	7.248	22.91
Total Expenditure	0.581	0.954	2.326	8.383	59.373	282.83
Operating cost/premium income (%)	27.65	29.32	27.87	21.46	22.89	17.42
Operating cost/total income **(%)**	22.71	23.78	20.63	13.7	14.93	11.76

Source: Malhotra Committee Report, 1994, Appendix 26, p. 148.

Table 2 explains financial performance of LIC during the period 1957 to 2001. The total income of LIC grew from Rs 1.079 billion in 1957 to Rs 737.82 billion in 2001-02. It increased nearly 700 times. The largest part of payments to the policyholders was through the maturity of policies. This proportion went up during that period, compared to death benefits. To a certain extent, this reflects the increasing popularity of life insurance products pertaining to savings. It can also be discerned that the operating costs (as percentage of premiums) remained high over a sustained period of time, but declined during the past two decades. A part of this reduction was due to the increased sale of group policies which are cheaper than individual life policies.

Table 3: Distribution of Investment Portfolio of the LIC 1980-2000 (In percentage)

Year	Loan to Government	Government bonds	Special Government bonds	Unapproved schemes	Foreign investment	Total
1980-81	41.7	55.0	1.6	1.1	0.6	**100**
1990-91	33.6	59.2	5.6	1.1	0.5	**100**
1991–92	4.9	85.5	6.9	1.9	0.8	**100**
1992–93	34.1	60.1	4.2	1.1	0.5	**100**
1993–94	31.4	63.4	3.6	1.1	0.5	**100**
1994–95	28.7	66.4	3.3	1.1	0.6	**100**
1995–96	26.5	69.0	2.9	1.2	0.5	**100**
1996–97	24.8	71.2	2.6	0.9	0.5	**100**
1997-98	23.1	73.3	2.4	0.8	0.4	**100**
1998-99	21.7	75.4	1.8	0.8	0.3	**100**
1999-00	19.8	77.9	1.4	0.6	0.3	**100**
2000-01	18.3	79.8	1.1	0.5	0.3	**100**

Source: Life Insurance Corporation annual reports of various years

From the above table, we can understand the distribution of Investment Portfolio of the LIC in the post- nationalization period. The first item of “Loans to state and central government and their corporations and boards” steadily fell from 42% to around 18% in twenty years. In their place, the share of the second item “Central government, state government, and local government securities “went up steadily from 55% in 1980 to 80% in 2000.

As such, the LIC (along with the State Bank of India) became one of the two largest owners of government bonds in India. It can be seen that the companies so far refrained from investing in equities or overseas. Recently, however, the LIC took a more aggressive stance in boosting its equity investment, both through private placements and secondary market purchases in the stock exchanges. In the financial year 2003-2004, it recorded an equity investment profit of INR 2,400 crores.

Overall, the performance of LIC was satisfactory in terms of premium, claims settlement, but coverage and reach were very low.

Liberalization Era of Life Insurance

There was a remarkable improvement in the Indian insurance industry soon after the Indian economic reform 1991.The insurance business in India was opened on two fronts. Firstly, domestic private-sector companies were permitted to enter the life insurance business. Secondly, foreign companies were allowed to participate, albeit with a cap on shareholding at 26%.

The study mainly focuses on the post liberalization period, from the year 2000 to 2013. To ascertain the emerging trends and changes in the life insurance industry, the following indicators - penetration, density, market share, total premium income, investments, operating expenses, profits/losses, etc. are employed.

Now it can be seen how the trend changed in the Indian insurance industry over a decade of the post - reform period through the following table.

Table 4: Life Insurance Penetration and Density in India - 2000 to 2014

Year	Density (USD)	Penetration (in %)
2001- 2002	9.1	2.75
2002-2003	11.7	2.59
2003-2004	12.9	2.26
2004-2005	15.7	2.53
2005-2006	18.3	2.53
2006- 2007	33.2	4.10
2007-2008	40.4	4.00
2008-2009	41.2	4.00
2009-2010	47.7	4.60
2010-2011	55.7	4.40
2011-2012	49.0	3.40
2012-2013	42.7	3.17
2013-2014	41.0	3.10

Source: Various Annual Reports of IRDA from 2000-01 to 2013-14.

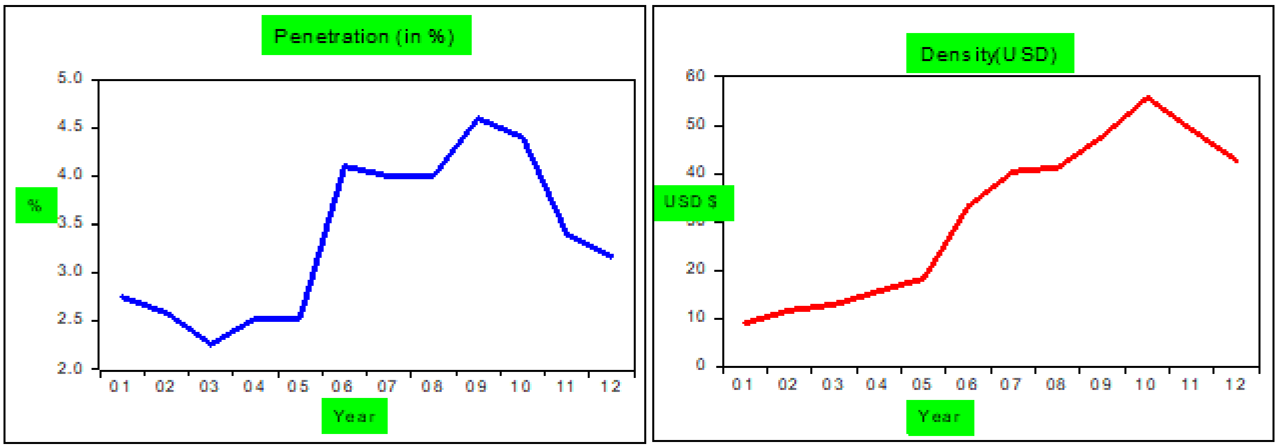

Diagram 1

The measure of insurance **penetration and density** reflects the level of development of insurance sector in a country. While insurance penetration is measured as a percentage of insurance premiums to GDP, insurance density is calculated as a ratio of premium to total population (per capita premium).

During the first decade of insurance reforms, the industry reported a consistent increase in insurance penetration from 2.75% in 2001-02 to 4.60 % in 2009-10. But since then, the level of penetration started declining and it reached 3.17% in 2012-13. This indicates that during the past three years, the growth in insurance premium is lower than the growth in national GDP. Insurance density also saw a similar trend in the post- reform period. The insurance density of life insurance business went up from USD 9.1 in 2001-02 to reach the peak at USD 55.7 in 2010-11, But since then the level of density started declining and reached 42.7 in 2012-13. Both the values of density and penetration are very low compared to those of advanced countries. This indeed one of the challenges to the Indian Insurance Companies.

Table 5: Market Share of Life Insurance - 2000 to 2014 (In percentage)

Year	Types of Business		
	Public (LIC)	Private	Total
2000-2001	99.98	0.02	100
2001-2002	99.46	0.54	100
2002-2003	97.99	2.01	100
2003-2004	95.32	4.68	100
2004-2005	90.67	9.33	100
2005-2006	85.75	14.25	100
2006-2007	81.92	18.08	100
2007-2008	69.78	30.22	100
2008-2009	70.92	29.08	100
2009-2010	71.18	28.81	100
2010-2011	69.77	30.23	100
2011-2012	70.68	29.32	100
2012-2013	72.70	27.30	100
2013-2014	75.39	24.61	100

Source: Various Annual Reports of IRDA from 2000-01 to 2013-14

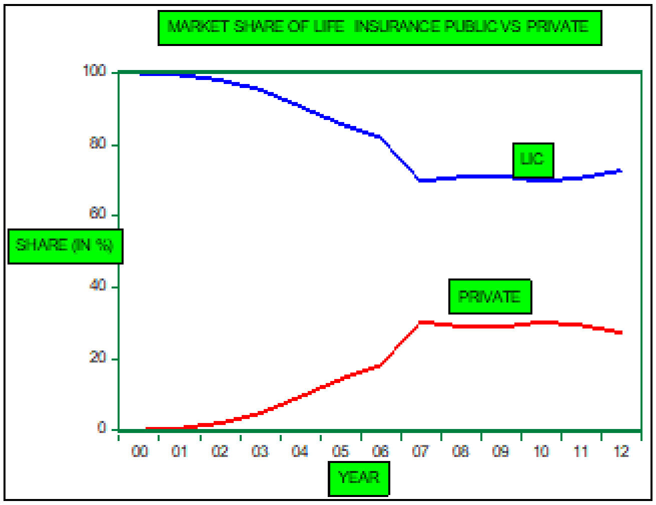

Diagram 2

Market share is one of the important indicators to analyze changes in the insurance sector. Table 5 shows the market share of life insurance industry in the post-reform period, from 2000-01 to 2012-13, the share of public sector (LIC) reduced from 99.98% to 72.70% in 2000-01 to 2012-13. This reduction is due to opening up of the insurance sector to the private and foreign companies. But still the public sector is dominating the life insurance industry. In case of private sector, its share increased from 0.02% in 2000-01 to 30.22% in 2007-08. However, the market share reduced to 28.81% in 2009-10 due to global financial crisis. It again came down to 27.30% in 2012-13. This shows that there was considerable growth in the insurance business in the private sector during the last 12 years, but for the last two years, declining trend has started and still a big gap remains between the public and private sectors.

Table 6: Total Life Insurance Premium Income sector-wise (2000-2014) (Rs crores)

Year	Type of Business		
	Public (LIC)	Private	Total
2000-2001	34890.02	6.45	**34898.47**
2001-2002	49821.91	272.55	**50094.46**
2002-2003	54628.49	1119.06	**55747.55**
2003-2004	63533.43	3120.33	**66653.75**
2004-2005	75127.29	7727.51	**82854.8**
2005-2006	90792.22	15083.54	**105875.76**
2006-2007	127822.84	28242.48	**156065.32**
2007-2008	149789.99	51561.42	**201351.41**
2008-2009	157288.04	64497.43	**221785.47**
2009-2010	186077.31	79373.06	**265450.37**
2010-2011	203473.4	88131.6	**291604.99**
2011-2012	202889.28	84182.83	**287072.11**
2012-2013	208803.58	78398.91	**287202.49**
2013-2014	236942.3	77340.9	**314283.2**

Source: Various Annual Reports of IRDA from 2000-01 to 2013-14.

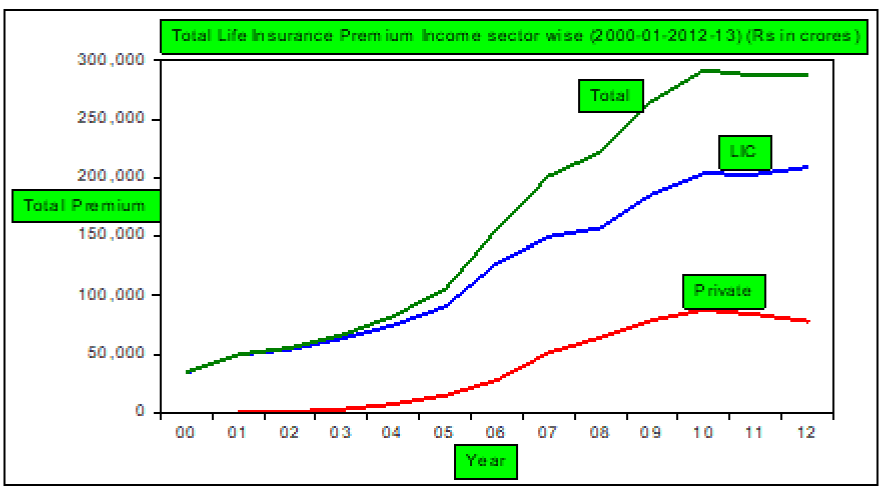

Diagram 3

The above table shows **the total Life Insurance Premium Income sector-wise (2000-2013).** From this table one can easily understand the overall performance of the sector because the total business is measured in terms of the premium income. This is the most important measure in the trend analysis. The business turnover of public sector (LIC) in 2000-01 was Rs 34,890.02 crores, and it reached Rs 202889.28 crores in 2011-12. This means that from 2000-01 to 2011-12 it increased 5.81 times. When it comes to the private sector, in 2000-01 financial year the turnover of the business was Rs 6.45 crores. Then it gradually increased to Rs 84,182.83 crores in 2011-12. In between 2000-01 and 2011-12, it increased 13,051 times because of the low base in the initial year. But in the year (2012-13) IRDA annual report indicates a declining trend in the both public as well as private sector life insurance industry. Overall premium growth in the private sector was only moderate because, many numbers of private companies are operating; whereas, as there is only one company in the public sector (LIC), they have good business. The private sector has a lot of potential and so it can increase its penetration and can expand its premium base. Overall, the Life insurance industry premium income was Rs 34,898 crores in 2000-01which increased to Rs 287202.49 crores in 2012-13.

Table: 7. Share of each fund in total assets under management (In percentage)

Year	Life Fund	Pension & Group Fund	ULIP Fund	Total
2000-2001	100	0	0	100
2001-2002	100	0	0	100
2002-2003	88.14	11.76	0.1	100
2003-2004	87.15	12.37	0.48	100
2004-2005	85.48	12.77	1.76	100
2005-2006	81.53	13.15	5.31	100
2006-2007	77.06	11.85	11.1	100
2007-2008	70.71	11.91	17.37	100
2008-2009	68.71	12.44	18.85	100
2009-2010	60.79	11.69	27.52	100
2010-2011	58.81	13.28	27.91	100
2011-2012	61.64	14.97	23.4	100
2012-2013	64.19	16.18	19.63	100
2013-2014	65.81	17.25	16.94	100

Source: Handbook on Indian Insurance Statistics, 2013-14.

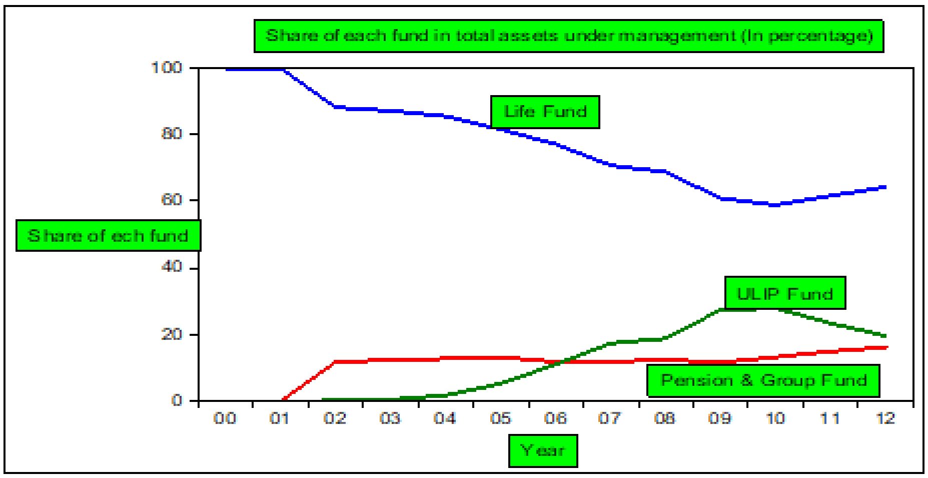

Diagram 4

The share of assets under management of life insurance industry is as follows: It is mainly divided between, life fund, pension & group fund, and ULIP Fund. The share of Life fund in 2000-01 was 100 % and gradually by 2011-12 it decreased to 61.64% and again increased to 64.19% by 2012-13. The reasons for the reduction in this share are due to more market orientation of assets, and since then pension & Group share increased from 0 % to 16.18 % during 2000-01 to 2012-2013. Regarding ULIP Fund it grew more rapidly than the pension & Group fund. ULIP fund grew from 0% to 23.40 % over a period of 2000-01 to 2011-2012 and later it exhibited a decline trend. It fell down to 19.63% by 2012-13.

Table 8: Investment Made by Total Life Insurance Industry, 2000-01 to 2013-14(Rs crores)

Year	Central Govt Securities	State Govt & Other Approved Securities	Infrastructure Investments	Approved Investments	Other than Approved Investments (OTAI)	Total
2000-2001	47512.68 (24.49)	52523.95 (27.07)	24886.86 (12.83)	50502.28 (26.03)	18583.83 (9.58)	**194009.6 (100)**
2001-2002	128813.1 (55.92)	3364.38 (1.46)	20740.87 (9.00)	60928.74 (26.45)	16521.65 (7.17)	**230368.74 (100)**
2002-2003	139939.3 (53.71)	28492.69 (10.94)	32962.63 (12.65)	52255.25 (20.06)	6902.59 (2.65)	**260552.48 (100)**
2003-2004	169212.1 (47.99)	38596.03 (10.95)	38636.84 (10.96)	89222.95 (25.30)	16956.56 (4.81)	**352624.52 (100)**
2004-2005	201549.9 (47.04)	51186.89 (11.95)	45521.01 (10.62)	103020.72 (24.04)	27173.39 (6.34)	**428451.91 (100)**
2005-2006	238089 (48.87)	58288.17 (11.97)	49638.45 (10.19)	111949.41 (22.98)	29185.68 (5.99)	**487150.69 (100)**
2006-2007	275098.8 (45.53)	60088.43 (9.95)	69836.78 (11.56)	159644.6 (26.42)	39511.17 (6.54)	**604179.81 (100)**
2007-2008	296687.5 (38.73)	85198.11 (11.12)	63262.13 (8.26)	257183.14 (33.58)	63638.49 (8.31)	**765969.33 (100)**
2008-2009	316009.8 (34.49)	107189.59 (11.70)	66673.33 (7.28)	353958.85 (38.63)	72533.26 (7.92)	**916364.78 (100)**
2009-2010	360446.8 (29.73)	137235.62 (11.32)	85674.54 (7.07)	568752.27 (46.91)	60348.72 (4.98)	**1212457.93 (100)**
2010-2011	420951.8 (29.43)	173733.34 (12.15)	89180.75 (6.24)	676875.4 (47.33)	69376.25 (4.85)	**1430117.57 (100)**
2011-2012	468082.4 (29.60)	214515.2 (13.57)	97319.92 (6.15)	731447.35 (46.26)	69893.97 (4.42)	**1581258.7 (100)**
2012-2013	512180 (29.35)	265989 (15.24)	118878 (6.81)	781539 (44.79)	66308 (3.80)	**1744894 (100)**
2013-2014	5,18,824 (17.65)	2,55,469 (19.12)	1,55,025 (30.41)	3,29,787 (11.19)	29,117 (40.68)	**12,88,224 (15.02)**

Source: Handbook on Insurance Statistics India 2013to 14.Note: Figures in brackets indicate the % share of investment in total investments

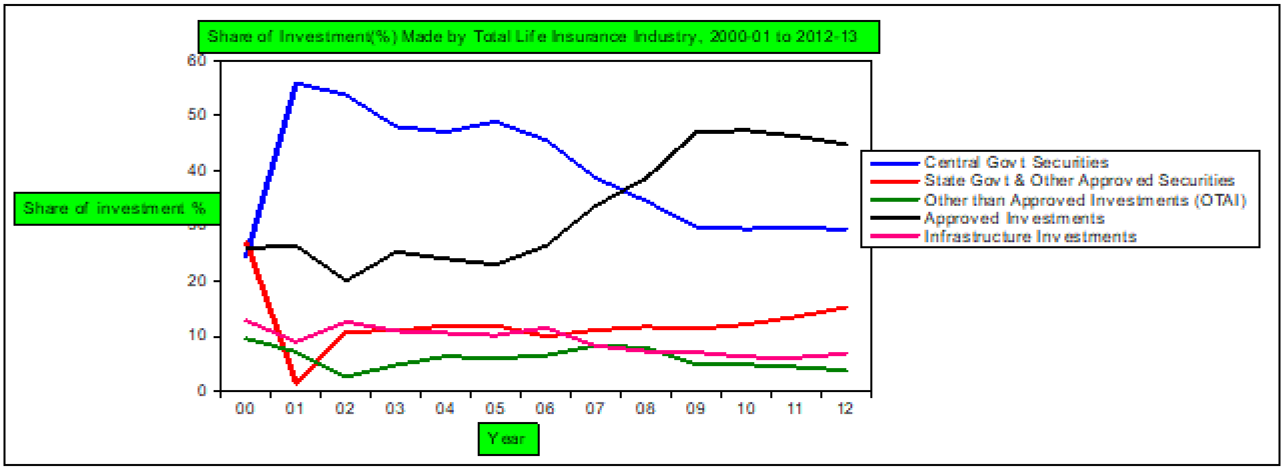

Diagram 5

The above table shows **the investment pattern of Life insurance industry**. Investment pattern and strategy are the crux of the Insurance business because it carries policy holders' money, and it has to repay to the policy holders within the time limit. The investment portfolio consists of Central government securities, State government and other approved securities, investment in infrastructure, approved investments, and other than approved Investments. Central government securities, investment share of total investment was 24.49% in 2000-01, which increased to 53.71% in 2002-03, and then it gradually reduced to 29.35% by 2012-13. Investment on State government and other approved securities share in total investment in 2000-01 was 27.07%, which reduced to 15.24% by 2012-13.

The reasons for reduction in central and state government securities are – reduction in the yield on the securities, portfolio diversification, and IRDA investment rules. The share of investment on infrastructure shares out of the total investment in 2000-01 was 12.83%, and then it reduced to 6.81% by 2012-13, due to investment diversification. Approved investment's share in the total investment in 2000-01 was 26.03%. Then it increased to 44.79% by 2012-13 due to investment diversification and market participation. Other than approved investment's share in the total investment in 2000-01 was 9.58%. Then it reduced to 3.80% by 2011-12. The total investment was Rs 1, 94,009 crores in 2000-01. It grew to Rs 17, 44,894 crores by 2012-13.

Table 9: Number of Offices of Life Insurance industry, 2000-01 to 2013-14

Year	Type of business		
	Private sector	LIC	Total
2000-2001	13	2186	2199
2001-2002	116	2190	2306
2002-2003	254	2191	2445
2003-2004	416	2196	2612
2004-2005	804	2197	3001
2005-2006	1645	2220	3865
2006-2007	3072	2301	5373
2007-2008	6391	2522	8913
2008-2009	8785	3030	11815
2009-2010	8768	3250	12018
2010-2011	8175	3371	11546
2011-2012	7712	3455	11167
2012-2013	6759	3526	10285
2013-2014	6193	4839	11032

Source: Various Annual Reports of IRDA from 2000-01 to 2013-14.

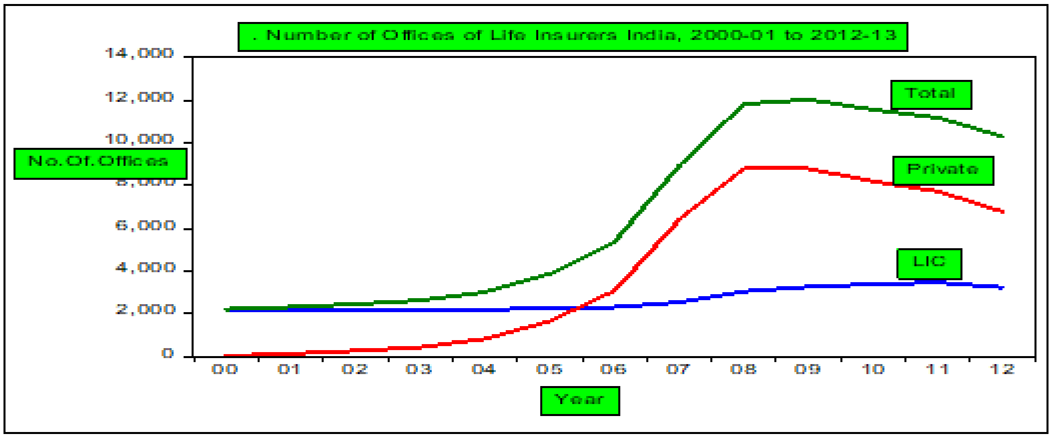

Diagram 6

Table 9 shows the **Number of Offices of Life Insurance Industry in India** in the post-reform period. The reach of insurance to different parts of India can be known through the number of offices established. In life insurance we have public (LIC) and private companies. The number of Private Life Insurance offices available in 2000-01 was 13, which gradually increased to 8175 by 2010-11. It started declining from the last couple of years. Regarding the public sector (LIC), the total number of offices available in 2000-01 was 2186. Since then, it grew to 3455 by 2011-12. LIC also exhibited a declining trend in 2012-13. The total no. of insurance offices of the total insurance industry was 2199 in 2000-01, which expanded to 11,167 by 2011-12 and it recorded low trend in 2012-13. The growth in offices was mainly contributed by the private sector during this study period. Still, it is a long way for the Indian insurance to reach the masses with their products for which they need strong marketing office set up. Establishing of offices, particularly in the rural and semi urban areas is the biggest challenge to the Indian insurance industry.

Table 11: Operating Expenses and Operating Expenses ratio of life insurers (Rs. Crore)

Year	Type of business		
	Public (LIC)	Private	Total
2001-2002	4260.39 (17.62)	419.36(187.5)	4679.75(18.54)
2002-2003	4571.75(17.55)	838.27(85.59)	5410.02(18.90)
2003-2004	5186.49(8.16)	1402.44(44.95)	6588.93(9.89)
2004-2005	6241.26(8.31)	2229.46(28.84)	8470.72(10.22)
2005-2006	6041.55(6.65)	3568.13(23.67)	9609.68(9.08)
2006-2007	7085.84(5.54)	6500.01(23.01)	13585.85(8.7)
2007-2008	8309.32(5.55)	12032.46(23.34)	20341.78(10.10)
2008-2009	9064.29(5.76)	16659.60(23.01)	25723.89(11.60)
2009-2010	12245.82(6.58)	16641.81(20.97)	28887.63(10.88)
2010-2011	16980.28(8.35)	15962.02(18.10)	32942.30(11.30)
2011-2012	14914.40(7.35)	14760.19(17.53)	29674.59(10.34)
2012-2013	16708 (8.00)	14854 (18.95)	31562 (10.99)
2013-2014	237600 (10.03)	13704 (17.72)	37465.41(11.92)

Source: Compiled from the annual reports of IRDA from 2000-01 to 2012-13

Note: Figures within in brackets indicate the operating expenses ratio. ***.*** *Operating expense ratio is the ratio of operating expenses to the premium underwritten by the life insurers.*

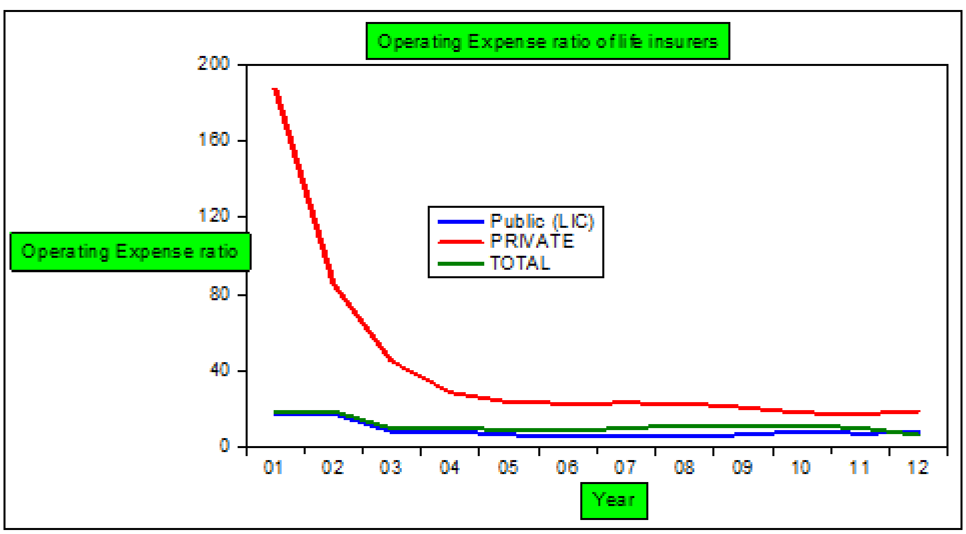

Diagram 7

The above table shows the **Operating Expense and Operating Expense ratio of life insurers in period of 2001-02 to 2012-13.** This is one of the important indicators which tell about the operating performance of a company or an industry. The operating expense ratio of the public sector (LIC) was 17.62 in 2001-02. It decreased to 6.58 in 2009-10 and it came to 8.00 by the year 2012-13. It indicates that the operating efficiency of LIC increased during 2000-01 to 2009-10 and then it started declining. Regarding the private sector, its operating expense ratio was 187 in 2001-02, and 18.95 in 2012-13. The operating expense ratio in case of the private insurers is high, particularly in the first year of operations and started declining gradually. Even then, the private insurers are still continuing their operations. The ratio of expenses to the premium is coming down slowly on account of both stabilization of operations and increase in the premiums. The total operating expense ratio was 18.54 in 2000-01 to 6.42 in 2012-13. It indicates that the operations are stabilizing over a period a time.

Table 12: Net Profits of Life Insurance (in crores)

Year	Type of business		
	Public (LIC)	Private	Industry
2000-2001	316	-25	291
2001-2002	822	-228	594
2002-2003	488	-377	111
2003-2004	552	-967	-415
2004-2005	708	-873	-165
2005-2006	631	-1083	-452
2006-2007	774	-1933	-1159
2007-2008	845	-4257	-3412
2008-2009	957	-5836	-4879
2009-2010	1,061	-2050	-989
2010-2011	1,172	1,485	2,657
2011-2012	1,313	4,661	5,974
2012-2013	1436	1156	2592
2013-2014	1634	1740	3374

Source: Compiled from the annual reports of IRDA from 2000-01 to 2013-Note: Minus figures indicate losses.

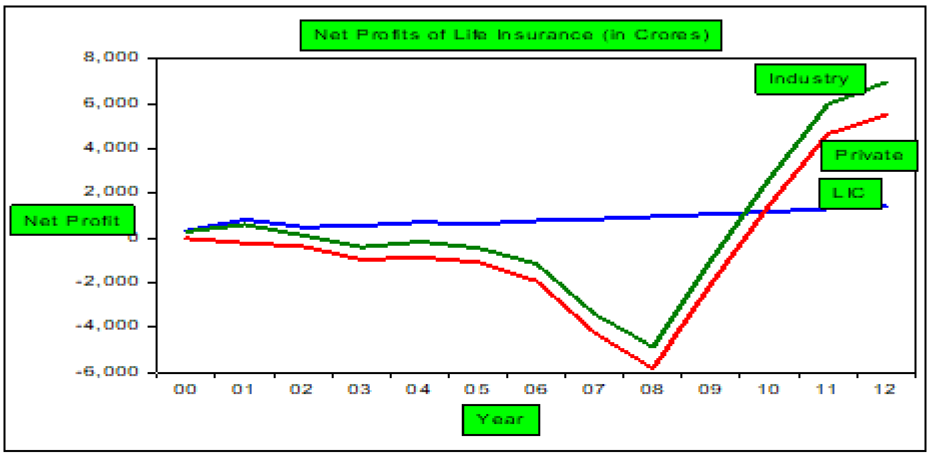

Diagram 8

Net profit of life insurance is the financial performance indicator of any company, and it explains the overall status of the industry. The net profit of LIC was Rs 316 crores in 2000-01 and it reached Rs 1437 crores by 2012-13; that means it increased by 4.54 times and the LIC did good business during that period. The private sector companies started their operations in 2000-01. The net profit of the private sector was Rs (-) 25 crores in 2000-01. The losses reached Rs 5836 crores by 2008-09 and Rs 2,050 crores by 2009-10. The profit in 2010-11 was Rs 1,485 crores, and in 2012-13 it was Rs 5511 crores.

The insurers are required to inject capital at frequent intervals to achieve growth in premium income. Owing the high rate of commissions payable in the first year, expenses towards setting up operations, rising costs for developing the agency force, creating a niche market for its products, achieving reasonable levels of persistency, providing for policy liabilities, and maintaining the solvency margin would be difficult for the insurers to earn profits in the initial seven to ten years of their operations. Industry net profit in 2000-01 was Rs 291 crores and it reached Rs 6,948 Crores in 2012-13. It increased by 20.5 times over the period. But from 2003-04 to 2009-10, the private sector was in losses.

Challenges faced by the Indian life Insurance Industry

The period succeeding the opening up the life insurance industry in India to the private and foreign player is very significant. During the period 2000-2011, the Indian life insurance industry combined with India's rapid growth of economy gained its foothold in the country. Private sector insurers ventured into the country and the industry faced the market driven competition, which was much more compared to the time when insurance business was dominated only by public sector insurers. The beginning of this new era in the development of insurance industry saw a proliferation of new products and distribution channels which promoted rapid growth of the industry.

Along with the expansion of the life insurance industry, the industry also faced the pressure of the high upfront cost due to nationwide expansion. It also faced the problem of dwindling volumes as policy lapses are increasing every year. The following are some of the important contemporary issues and challenges in insurance business which are to be considered seriously.

Low Rural market share:
Low rural and social sector share is a major hurdle for life insurance companies. Even the knowledge of insurance products and information about the advantages of life products is very low in the rural areas.

Low satisfaction of Customer Service:
With both LIC and private players in operation, Indian life insurance market has undergone significant changes over a period of time. One of the major challenges faced by the organizations is the increase in competition, and continuous increase in customer's expectations. As a dissatisfied customer carries out word of mouth publicity, life insurers alongside selling insurance policies should try to keep their customers satisfied.

Delayed Break-even for Private Insurance Companies:
Break-even point is achieved in the insurance industry when the new business premium is equal to the renewal premium. However, as the Indian insurance industry is growing, the volume of new premiums is much more than the renewal premiums. Globally, life insurance companies break even in six to eight years, but in India, it has not been achieved and it may take another one or two years due to the recent financial crisis in the world.

Distributional channel challenge:
India is a diverse country with various languages, food, culture, spending and saving patterns. Historically, the majority of life insurance players has followed a national strategy, with largely similar distribution and operating models across country. Finding niche markets, having the right product mix through add-on benefits and riders, effective branding of products and services and product differentiation will be some of the challenges faced by new companies. Customer expectations and awareness have significantly increased in recent years, particularly in terms of speedy and better service. Reaching the consumer's expectations on par with foreign companies - such as better yield and improved quality of service, particularly in the area of settlement of claims, the issue of new policies, and transfer of the policies and revival of policies in the liberalized market is very difficult.

Distributional channel challenge:
The potential and performance of the insurance sector is universally assessed with reference to two parameters, viz insurance penetration and insurance density. These two parameters are often **used** to determine the level of development of an insurance sector in a country. Life insurance penetration consistently went up from 2.75% in 2001-02 to 4.60% in 2009-10, before slipping to **4.40**% in 2010-11 and further slipping to 3.40% in 2011-12. India has reported consistent increase in insurance density every year since the sector was opened up for private competition in the year 2000. However, for the first time in 2011-12, there was a fall in insurance density. The life insurance density in India has gone up from USD 9.1 in 2001-02 to USD 49.0 in 2011-12 though it reached the peak of USD 55.7 in 2010-11. From the above, it can be seen that the biggest challenge the Indian life industry is facing today are low density and low penetration, which are low compared to those of advanced countries.

Global Insurance Issues:
There are several important issues on which IRDA is working on - the convergence of the Indian Accounting Standards with the IFRS, the settlement of norms relating to the issuance of IPOs (initial public offers) and M&As (mergers and acquisitions), the establishment of a more robust system to collect and disseminate appropriate insurance related data and several other initiatives are the main issues of global insurance.

Marketing of products through online issues:
Initially, insurance was seen as a complex product and buyers preferred face-to face interactions with intermediaries. Nowadays, the technology allows insurers to increase their reach into the market. All insurers have websites through which they provide information about products and services. In India Internet penetration is still low and legality of agreements is posing problem. The insecurity associated with transactions over the net is still an inhibiting factor. The internet has not been evolved into a means for direct selling of insurance in the current scenario. In the Indian market, where insurance is sold after considerable persuasion even after face-to-face selling, the selling over the net, which must be initiated by the client, would take some more time.

Regulatory challenge:
The biggest challenge faced by the Government today is that of a regulator with the prospect of about 40 or 50 players (life and non-life), each represented by thousands of agents, brokers and intermediaries. To evolve a free and fair method of assessing the companies, to ensure fair play between the competitors, and to safeguard the interests of largely uninformed customers - are the main tasks ahead. The other and equally serious aspect is to ensure that the vast amounts collected by the insurance and pension funds are utilized for the welfare of the people. Though the Government itself would not be the guarantor of the policy money, nevertheless, it is accountable through its regulatory mechanism to put in place prudential norms of investment and accounting, revenue recognition, fair valuation of assets and liabilities, determining necessary margins towards any contingencies, and proper reserves for shrinkage of investment.

5. Conclusion

The overall trend in the insurance industry has been positive. Global players have exhibited an interest in the huge market that India offers. Given that 42.9 percent of the financial savings are made with the banking sector, there is a vast potential for the insurance sector to grow. Many international studies have estimated that the insurance industry in India can grow by over 125 per cent in the next ten years. In fact, India has been identified as one of the fastest growing insurance markets. The growth in the life segment is expected to be faster as against the non-life segment.

It is more than one decade of reform period in the Indian life insurance sector, a number of national and international private players (23 private players,) entered the Indian insurance market but LIC is the dominating player in the life insurance sector. In the decade of the reform period, declining trend started in the insurance industry for the first time in 2010-11. Inspite of all the positive trends, the globalized life insurance market is still facing a number of challenges as explained above.

On the whole, the study presents a holistic view of the "Indian life Insurance Industry" in an analytical way from its inception in 1818. The study is divided into three parts - first, pre-nationalization period; second, post-nationalization period; and third, post-reform era. In all these three periods, life insurance industry is analyzed by considering various parameters ranging from premium to branch expansion. Based on this analysis, various issues and challenges in the life insurance industry are identified, and these issues were analyzed in a systemic manner by incorporating different arguments existing in the literature and policy circles. Since there are different stakeholders in the insurance industry ranging from companies to customers, effort has been made to incorporate all the different dimensions of the challenges in an unbiased manner.

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