Factors Affecting the Growth of Private Life Insurance Business in India

Mona Jindal

Abstract: Indian Life insurance sector is growing at a faster rate. This fast growing industry has given a platform for economic growth, infrastructural development and employment. The great extent of importance was realized after it has been opened to the private players in the post liberalization period. With many players in life insurance business, the insurance regulatory and development authority came with innovative and constructive guidelines for both products and services. Internet and online policy purchase are some new trends that have inspired the players to be more focused in their business. High in volume and low in margin are going to be the ways towards policy procuring. Rural, social and Micro insurance is a new avenue in life insurance sector.

This paper discusses the factors affecting the growth of private life insurers. The sample for this study includes 5 Indian life insurers and it analysis the data of 14 years from 2001-2002 to 2013-2014. The suggestion and recommendation will help both academician and industry personnel to re-engineer their thought in insurance sector.

Keywords: Life Insurance; Regulator; Plan; Insurance Industry; IRDA

I. INTRODUCTION

Insurance is the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium and can be taken as a guaranteed and known small loss to prevent a large loss. Life insurance is defined as a contract between the policy owner and the insurer, where the insurer agrees to pay a sum of money upon the occurrence of the insured individual's or individuals' death or some other event, such as terminal illness or critical illness.

Nearly 80 per cent of Indian population is without life insurance cover and is also subject to weak social security and pension systems. This itself is an indicator that growth potential for the insurance sector is immense.

Statement of the problem

The study is indicated briefly to analyze the growth factors of the life insurance and its impact to the entire insurance Industry.

II. REVIEW OF LITERATURE

Sabera (2007) in his study ‘Privatization of Insurance Industry in India – The Growth’ reviewed to look at the business strategies of Private Life Insurance Companies & future expectations. The study found that the private insurance players had established their own identities in the Indian market in a short period of time & they had 200 percent growth in the second year of liberalization. The researcher found that Indian Life Insurance Industry was still underdeveloped one, as 80 per cent of Indian population was still not under insurance cover & majority of LIC’s business was procured by their only 20 per cent of ill-trained agency force which highlight that private players need to enter. These private players were mainly concentrating on consumer service. For this purpose they were following variety of strategies & looking for various methods and delivery channels like call centres, internet, telemarketing & direct marketing. The study concluded that with the entry of more private players, the competition was likely to become very high in life insurance segment.

Kannan and Thangavel (2008) in their paper “Overview of Indian Insurance Sector” analysed the market share of Indian Insurance Industry from the year 2001 to 2008. They highlighted that though share of LIC is more still private sector is competing and with its coming, market share of LIC is decreasing as private sector is providing new variety of products according to the choice of the customers.

Suresh (2009) in his study ‘Recipe for Successful life insurance business’ assessed the importance of distributor playing the role of first level professional in life insurance business. Treating the customer fairly is a new management initiative that looks beyond mere customer satisfaction. He emphasized that insurer should ensure that though customer is fully satisfied with services but if not treated fairly on account of ignorance of what was actually due to him it would demand change in practice.

Udaychandran (2010) in his paper ‘Need for Variety in Product’ says that there is need for new products particularly long term in nature especially in health insurance sector, health savings account would be a wise proposition and by designing the product that would be outstandingly unique but given that it should be
within the constraints of regulatory approval. It also studied the performance of the products that have already been introduced in the market and wherever necessary, appropriate changes must be made, it must be in tune with that of customer demands. For this imaginative combination of riders with base products could lead to better solutions.

Parekh (2011) in his paper ‘Corporate social responsibility in Insurance’ emphasis to put on improvement of awareness among masses by educating them about preventive healthcare, adoption of general hygiene, arresting the rate of accidents, etc. Though it sound very mundane, there is a need of hour for spreading awareness in these aspects especially in rural and under developed areas. He found that these attempts could lead to better business results for the insurers showing positive results in visible development of the society.

Need of the Study:
Since LIC’s existence has social significance for the Indian economy & thus lot of work has been done to assume its growth & performance in India.

With the emergence of private companies in Life Insurance Sector the industry has become highly competitive due to its aggressive advertising campaigns, better improved products; awareness of life insurance has increased. But so far no serious attempt has been made to study this impact of these new & growing private players in India. Hence, an attempt is made to study the present scenario prevalent in private life insurance sector.

Limitations of the Study
1. The data collected for the study depends on published financial statements of the companies which may incorporate some drawbacks.
2. The horizon of the study merely confined to very less number of variables as the growth drivers for studying recent scenario.

Objective of the study
1. To study the factors affecting the growth in present life insurance scenario.
2. To study the recent trends in life insurance sector

III. RESEARCH METHODOLOGY
Exploratory research methodology is used here to analyze the data. Data was collected from various sources such as books, IRDA journals as well as other journals like Life Insurance Today etc. In this paper, we have referred previous research articles. Apart from this, we have visited different websites and professional magazines. So it is purely based on available secondary data.

Sample Size
The entire private life insurance sector has been taken for the study.

Research Tools
The study uses analysis of variance to measure the mean performance of the variables chosen between two periods chosen i.e. 2002-2010 and 2011-2014.

Factors affecting the growth of Life Insurance Industry
The growth of Indian life insurance sector is divided into two main periods. First part of the period of study is from 2001 to 2010 and other from 2011 to 2014. The first 10 years was a period of high growth. Most of the players were in good condition due to the emergence of unit linked insurance plans. From 2010 onwards, that is after the first decade the insurance industry has undergone lot of changes as there was a stiff competition, changed IRDA guidelines with respect to sale of ULIP’s and changes in commission structure paid to the agents which were the major reasons for the stagnant growth in this recent scenario in life insurance industry.

The present research paper studies the factors affecting growth of the entire private life insurance sector in India in the light of changes mentioned above. For this purpose, various indicators like total number of policies issued, region wise distribution of offices, accumulated profit or loss, total life insurance business and premium income in Indian life insurance industry have been analyzed.

IV. ANALYSIS AND DISCUSSION
A. Region wise Distribution of Offices of Private Life Insurance Sector
There are mainly three regions among which overall distribution of offices in India is spread. They are metropolitan region, urban region and unclassified region. This distribution is done based on HRA classification of places done by the Ministry of Finance. Metropolis region includes Delhi, Mumbai, Chennai, Kolkata, Hyderabad and Bangalore. Urban region includes A, B-1, B-2 class cities of the HRA classification. Unclassified region includes all the other rest of places including small towns and cities.

Null Hypothesis
There is no significant difference in the mean number of offices among the regions.
Since the F is significant at 1 per cent level which indicates that the null hypothesis of no difference in the mean number of offices in the regions is rejected and there is significant difference in the mean number of offices among regions.

The mean number of offices among the regions is furnished below on the basis of which ranks have been allotted to the regions.

Table 2: Region-Wise Distribution of Offices of Private Life Insurers (As On 31.03.2014)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>REGIONS</th>
<th>MEAN</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Metropolis</td>
<td>707.13</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Urban</td>
<td>1429.00</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Unclassified</td>
<td>4845.63</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Primary data

It is seen from the above table that among the opinions on offices the mean ranges from 707.13 to 4845.63 and the unclassified region has secured highest mean and stood at top whereas the metropolis has secured the least mean and stood at last which indicates that greater number of offices are being opened in unclassified regions by the private life insurers which depicts that the private life insurance sector is promoting the rural sector.

B. Premium Income of Private Life Insurance Industry

Premium income is the second major source of income of life insurance industry. Table reveals the mean scores of the total premium earned by the entire private life insurers in India.

In order to compare the mean performance – Total Premium Earned between two periods namely the year 2002-10 & the year 2011-14, of the private insurer, Student’s ‘t’-test for two independent samples is performed and the result is furnished below:

Table 3: Total Premium Earned

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Mean score Before 2002-10</th>
<th>Mean score After 2011-14</th>
<th>Mean difference</th>
<th>Std. Error</th>
<th>‘t’ value (df: 10)</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Private insurer</td>
<td>25101.12</td>
<td>82013.56</td>
<td>-56912.4</td>
<td>9713.51</td>
<td>-5.8591</td>
</tr>
</tbody>
</table>

* Significant at 5 % level

It is seen from the above table the means, mean difference, the standard error of the mean difference between the year 2002-10 and the year 2011-14 of the private insurers. Since the calculated ‘t’ is significant at 5 per cent level it is concluded that the mean performance is high during the recent time period of 2011-14 than 2002-10 period

C. Number of Policies Issued

Table reveals the mean scores of the number of new policies issued by the entire private life insurers in India.

In order to compare the mean performance – Number of policies issued between two periods namely the year 2002-10 & the year 2011-14, of the private life insurers, student’s paired ‘t’-test for two independent samples is performed and the result is furnished below:

Table 4: Number of Policies Issued

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Mean Before 2002-10</th>
<th>Mean After 2011-14</th>
<th>Mean difference</th>
<th>Std. Error</th>
<th>‘t’ value (df: 4)</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Private sector</td>
<td>7748</td>
<td>16635.33</td>
<td>-8887.33</td>
<td>2296.6</td>
<td>-3.86978</td>
</tr>
</tbody>
</table>

* Significant at 5 % level

It is seen from the above table the means, mean difference, the standard error of the mean difference between the year 2002-10 and the year 2011-14 of the Private insurer the mean new policies issued. Since the calculated ‘t’ is significant at 5 per cent level it is concluded that the mean new policies issued is higher during the period 2011-14 than 2002-10 periods.

D. Accumulated Profit/Loss of Private Insurance Companies

Due to the nature of the insurance business as well as lot of initial expenses incurred majority of insurance companies take at least a few years’ time to reach the break-even point. However, after the opening up
of the life insurance sector to private players, the number of companies continues to grow. Insurers who have covered large scale are likely to achieve break-even earlier.

Table sufficiently reveals the size and mean scores of accumulated profits and losses by top five chosen private life insurers in India during 2002-2014.

In order to compare the mean performance – Accumulated profits and losses between two periods namely the year 2002-10 & the year 2011-14, of the private life insurers, student’s paired ‘t’-test for two independent samples is performed and the result is furnished below;

In order to compare the performance namely accumulated profit/loss of the insurance companies between 2002-10 & 2011-14 the Student’s ‘t’ test for two independent samples is performed and the results are furnished below;

Table 5: Accumulated Profit/Loss of Private Insurance Companies- ‘T’-Test

<table>
<thead>
<tr>
<th></th>
<th>Mean score 2002-10</th>
<th>Mean score 2011-14</th>
<th>Mean difference</th>
<th>Std.error</th>
<th>‘t’ value</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC</td>
<td>-182.544</td>
<td>-1272.16</td>
<td>1089.614</td>
<td>160.2463</td>
<td>6.80</td>
<td>*</td>
</tr>
<tr>
<td>ICICI</td>
<td>-883.574</td>
<td>-2623.37</td>
<td>1739.8</td>
<td>588.0251</td>
<td>2.96</td>
<td>*</td>
</tr>
<tr>
<td>RELIANCE</td>
<td>-321.024</td>
<td>-2503.02</td>
<td>2181.992</td>
<td>233.3939</td>
<td>9.35</td>
<td>*</td>
</tr>
<tr>
<td>BAJAJ</td>
<td>-171.836</td>
<td>349.1</td>
<td>-520.936</td>
<td>821.7003</td>
<td>-0.63</td>
<td>Ns</td>
</tr>
<tr>
<td>SBI</td>
<td>-75.3975</td>
<td>244.87</td>
<td>-320.268</td>
<td>363.1777</td>
<td>-0.88</td>
<td>ns</td>
</tr>
</tbody>
</table>

*-Significant at 5% level ns-non significant at 5% level

It is seen from the above table that among the five private life insurance companies chosen for the study, two companies Bajaj Allianz & SBI Life the performance is on par and their mean difference is not significant between the two time periods whereas the other three companies HDFC Life, ICICI and Reliance Life, there is significant difference in the mean performance between the two periods and their accumulated loss have increased significantly during the recent time scenario of 2011-14.

V. RECENT TRENDS IN LIFE INSURANCE INDUSTRY

1. Good Servicing Standards

Servicing in life insurance assumes greater role and acquires strategic importance not only as a tool for customer retention but also for customer acquisition. We have analysed servicing from the perspective of customer and the market. In life insurance, products are more or less similar across insurer and even the investment patterns and market are defined. In the long run the expected returns of a life insurance product do not vary much except where there are huge differences in costs. Customer dissatisfaction can get revealed through customer’s complaint. The system of recording, redressing and reporting grievances has always been there in the industry. Further IRDA, introduced a new system from 1st April 2011 known as Integrated Grievance Management System (IGMS).

IGMS

IRDA has launched the Integrated Grievance Management System (IGMS). Apart from creating a central repository of industry-wide insurance grievance data, IGMS is a grievance redress monitoring tool for IRDA. Policyholders who have grievances should register their complaints with the Grievance Redress Channel of the Insurance Company first. If policy holders are not able to access the insurance company directly for any reason, IGMS provides a gateway to register complaints with insurance companies.

In the study of complaints we face one problem which needs to be addressed. We have the absolute number of complaints against a life insurer. The number of complaints for an insurer like LIC which has the highest number of in-force policies will always be large and it would be unfair to compare across all insurers the data of absolute number of complaints. To overcome this we need to normalize the data to arrive at a more comparable measurement of the level of dissatisfaction against an insurer. For this, we will make use of a concept known as “Complaints per Thousand In-force Policies (CpTIP)”. This is a ratio of the number of complaints received by an insurer during a financial year to the total number of in-force policies serviced by the insurer at the end of the financial year. The use of this ratio eliminates bias against any insurer and hence we can use data of all the twenty four life insurance company irrespective of the number of policy serviced by them CpTIP is expressed as number of complaints per thousand in-force policies.

\[
C_{pTIP} = \left( \frac{\text{No. of Complaints received in a Financial Year}}{\text{No. of Inforce Policies at the end of the Financial Year}} \right) \times 1000
\]

A lower CpTIP score indicates lesser number of complaints per thousand policies serviced by the insurer and thus indicates lesser number of unsatisfied customers and indirectly it indicates better servicing standard.
ii. Role of Social Media

Social media, the new milestone helped in bringing millions of people to its platform in a very short time irrespective of their status. Facebook in terms of users can be compared to a country only next to China and India. It currently has 1 billion active users i.e. 1 in every 8 persons of the world uses it. Similarly 600 tweets are exchanged every second. The digital distribution scenario is making strategic advances in the face of the challenges posed by the disruptive nature of technology. For the players in life insurance this could help them to leave digital footprint that can boost their proposition into a brand that is aided with the enablers as differentiating aspects.

The introduction of 4G / 3G Services at relatively cheaper rates will definitely increase the reach of mobile phones and net connectivity, which in turn will increase the possibility of connecting with the insured more conveniently. Projects like Google’s Project Loon and Facebook’s internet.org will ensure more and more people getting connected in this network. Companies have been engaging their clients in various ways via. Games, discounts on purchase through mobile app, Facebook communities, twitter followers, blogs and many more. Thus social media has been beneficial in activities like connecting with the insured, engaging them, communicating with them, getting feedback, sales point i.e. enhancing the sale of policies online would be a major source of business in the near future.

Such innovations will not only help generate new business but will also eradicate the moral hazards by the insured along with increase in transparency. The banking sector has already taken a leap into technology and has utilized it for better prospecting. The insurance companies are also utilizing the social media but it needs to be strategized in a better manner so that the huge opinion warehouse can start communicating the hidden trends and feedback it deciphers right now along with working as a string brand development tool.

iii. Frugal Innovation

It has become imperative for every business to strive to innovate to deliver greater value to the customer. Innovation is no longer the domain of manufacturing and in the last few years, service innovations have been in the news. Earlier, supply chain management was considered to be the domain of manufacturing but now service supply chains is being talked about and service sectors like banking, insurance, health care, hospitality, education, retail are using technology to provide better service to customers.

Every business must innovate to grow. Innovation is an important part of strategic management. After the economic crisis in recent times, the western-centric innovation model has been put to question. Companies often get into the standardization mode and seldom are questions raised about spending huge amounts of money on R&D without knowing about the returns from the investment. In the era of globalization, companies would do well to revamp their strategy to leverage global ideas, talent and markets. Companies can create special innovation groups to motivate engineering and product teams to come up with out-of-box ideas.

But the Indian insurance market is complex because of regional disparities. Underwriters and claim processors need to keep their ears on the ground to look at such innovations and how it can affect the insurance business. Jugaad is a Hindi word that means doing more with less. Jugaad innovations can bring about dramatic results in cost efficiencies and productivity enhancements for business. Jugaad innovations can have both positive and negative implications for insurance. Jugaad innovation needs collective thinking and so it is best for insurance industry to come together to discuss ways of providing solutions to grow business and reduce risks.

iv. Technology Trends and Digital Distribution Strategies in Insurance

The digital distribution phenomenon has evaporated the physical boundaries and geographical barriers and has made goods and services available at a click. The digital distribution scenario is making strategic advances in the face of the challenges posed by the disruptive nature of technology. For the players in life insurance this could help them to leave digital footprint that can boost their proposition into a brand that is aided with the enablers as differentiating aspects. While doing so, insurers can use the powerful social medium to engage its public. Digital also allows insurers to relook at the new market segments and strategize to exploit the same need is felt to have a culture of innovation and learning. Similarly products that could be sold and serviced through digital would resonate with the digital citizens and create a long term value for all.

There are compelling reasons to move to a full fledge digital distribution channel. Apart from the cost efficiencies of the channel there are certain positive gains such as the integrative approach, time efficiency, quality management and facilitation.

These aspects give digital its cutting edge over traditional channels. The soul of digital distributions is empowerment to customers. Reaching out to them directly through the digital medium would see reduction in time to market and generate leads, on the other hand the customers taking charge would make them self reliant and shun away from the traditional desks. With the number of transactions growing through the online such as premium payment, obtaining the status of policy, revival quotes, loan quotes, assignment and nominations etc. with the pace of this growth and by widening service offerings through the internet could really close the gap for customers and prospects. Providing the self driven menu for servicing would help the right customer getting served at the right time with the right offering. The marginal costs of reproducing information through social
channels are almost negligible and could be put to great use by communicating the organizations new initiatives through the preferred channel of communication by way of technical manuals, visuals and videos.

VI. CONCLUSION

Insurance sector plays an important role in the economic development of a country. The technology should be laid out in such a manner that it includes the requirement from the launching policy till the final stage when it reaches in the hand of customer, means the service provided to the policy holders or the end users. Digital system should allow insurers to relook at the new market segments and strategize accordingly to have a culture of innovation and learning. Similarly products that could be sold and serviced through digital would resonate with the digital citizens and create a long term value for all. The new entrants in the insurance business sector should take pains and understand peoples demand and needs and transform their policies as per their choices. They should be designed to provide the facilities to customers as to give the customers full reliance and satisfaction. In meeting the challenges and making the best of the opportunities lies the future of the Indian insurance companies.

VII. REFERENCES