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MODEL OF PUBLIC AND PRIVATE SECTOR INSURANCE COMPANIES IN SOCIAL SECTOR OF THE INDIAN ECONOMY

Ekta Singh
Assistant Professor
NIET Greater Noida

ABSTRACT

Life Insurance business in India was nationalized by incorporating Life Insurance Corporation of India" (LIC) in 1956. After the Indian economic reform 1991 there was a significant improvement in the Indian insurance sector which is characterized by Liberalization, Privatization and Globalization (LPG). In year 1993 the Malhotra Committee emphasized on privatization of life insurance business. The Indian insurance industry was opened for private insurers in the year 1999, with the establishment of Insurance Regulatory and Development Authority Act (IRDA Act). Before liberalization there was monopoly of Life Insurance Corporation of India (LIC). The entry of private companies in life insurance business breaks the monopoly of LIC. The Insurance Regulatory and Development was established to regulate and to protect the policyholder's interest of the insurance industry. Indian life insurance is the fastest growing sector, with many domestic and foreign players. The government of India allowed private insurers in year 2000 with 26% foreign direct investment. In the post liberalization era, the life insurance sector of India witnessed a significant growth as there is healthy competition from many domestic as well as foreign private insurers. There is tremendous growth potential for life insurance sector in India as we have huge population and still the Indian life insurance market is untapped. Further, it indicates the growth prospects and a huge potential for life insurance business in the country.

Key words: LIC, insurance business

INTRODUCTION

The insurance sector has a vast potential not only because incomes are increasing and assets are expanding but also because the volatility in the system is increasing. In a sense, we are living in a more risky world. Trade is becoming increasingly global. Technologies are changing and getting replaced at a faster rate. In this more uncertain world, for which enough evidence is available in the recent period, insurance will have an important role to play in reducing the risk burden individuals and businesses have to bear. In the emerging scenario, the insurance industry must pay attention to (a) product innovation, (b) appropriate pricing, and (c) speedy settlement of claims. The approach to insurance must be in tune with the changing times.

The mission of the insurance sector in India should be to extend the insurance coverage over a larger section of the population and a wider segment of activities. The three guiding principles of the industry must be to charge premium no higher than what is warranted by strict actuarial considerations, to invest the funds for obtaining maximum yield for the policy holders consistent with the safety of capital and to render efficient and prompt service to policy holders. With imaginative corporate planning and an abiding commitment to improved service, the mission of widening the spread of insurance can be achieved.

REVIEW OF LITERATURE

Rajasekar D and T.H.Kumari (2014), the level of penetration, particularly in life insurance, tends to rise as income levels increase. The market share of the entire private players has sharply risen with the entry of private players in life insurance market. This indicates that the private players are doing quite well and are improving year by year, thus affecting the performance of LIC. Rao Divakara P (2015), Number of polices has subsequently increased year after year but the performance of LIC has deteriorated and those of private players have been improved tremendously. With every successive year, private players are gaining the trust of the public and have quite successful in snatching the business from LIC. Though the income of private insurance companies is negligible when compared with LIC but then also the pace with which they are increasing their income is tremendous. Private insurance companies are expanding their business and will certainly going to give a tough competition to LIC in the coming days. LIC, being the oldest player in the existing insurance market, has the biggest market share of 64.39% which was 99% in the year 1999-2000. We see that private insurance companies are penetrating in the customer base of LIC. Private insurance companies are giving a tough competition to the LIC.

Tripathi. S (2009), in his dissertation report mentioned that Private companies are giving direct competition to LIC, LIC is a dominating player even after privatization and abundance scope of insurance expansion in the Indian market, LIC is having huge customer base being an old giant are some of the main findings of this study. He concluded that LIC is a most popular and leading brand but with aggressive marketing approach; private companies are giving direct competition to LIC.
C. Barathi, C. D. Balaji and Ch. Ibohal Meithei (2011), in the research paper titled “Innovative Strategies to Catalyse Growth of Indian Life Insurance Sector- an Analytical Review” have clearly discussed about the impact of global recession on the fastest growing Indian insurance market. They find the entry ofmany private companies has created a paradigm shift in insurance marketing in India in terms of products, tariffs; customer service etc. Chatterjee. P (2009) evidently said private insurers recorded 62% growth rate in April-December 2008 against 45% in the same period of last fiscal. ICICI Prudential, HDFC Standard, SBI Life and Bajaj Allianz are the dominant players of the life Insurance sector. LIC a market leader recorded a decline of 28% and experts said the Industry has witnessed a reasonable growth despite the tight financial conditions. Kapse. S and Kodwani D.G (2003), in their article, argued that in the changing scenario for the insurance sector there is going to be a good opportunities for insurance sector to expand its market base. For this purpose there is need to improve the features of the insurance products to make them more liquid or short term schemes could be increased. Krishnamurthy S, Mony. S, Jhaveri. N, Bakhshi. S, Bhat. S and Dixit M.R (2005), in their paper clearly explained the status and growth of Indian Insurance Industry after liberalization and also present future challenges and opportunities linked with the Insurance.

HEALTH INSURANCE SCENE IN INDIA

In India it has limited experience of health insurance. Given that government has liberalized the insurance industry, health insurance is going to develop rapidly in future. The challenge is to see that it benefits the poor and the weak in terms of better coverage and health services at lower costs without the negative aspects of cost increase and over use of procedures and technology in provision of health care. The experience from other places suggest that if health insurance is left to the private market it will only cover those which have substantial ability to pay leaving out the poor and making them more vulnerable. Hence India should proactively make efforts to develop Social Health Insurance patterned after the German model where there is universal coverage, equal access to all and cost controlling measures such as prospective per capita payment to providers. Given that India does not have large organized sector employment the only option for such social health insurance is to develop it through co-operatives, associations and unions. The existing health insurance programmes such as ESIS and Mediclaim also need substantial reforms to make them more efficient and socially useful. Government should catalyze and guide development of such social health insurance in India. Researchers and donors should support such development.

PRESENT SCENARIO

The Government of India liberalised 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. Under the current guidelines, there is a 26 percent equity cap for foreign partners in an insurance company. There is a proposal to increase this limit to 49 percent.

The opening up of the sector is likely to lead to greater spread and deepening of insurance in India and this may also include restructuring and revitalizing of the public sector companies. In the private sector 12 life insurance and 8 general insurance companies have been registered. A host of private Insurance companies operating in both life and non-life segments have started selling their insurance policies since 2001.

NON-LIFE INSURANCE MARKET

In December 2000, the GIC subsidiaries were restructured as independent insurance companies. At the same time, GIC was converted into a national re-insurer. In July 2002, Parliamant passed a bill, delinking the four subsidiaries from GIC.

Presently there are 12 general insurance companies with 4 public sector companies and 8 private insurers. Although the public sector companies still dominate the general insurance business, the private players are slowly gaining a foothold. According to estimates, private insurance companies have a 10 percent share of the market, up from 4 percent in 2001. In the first half of 2002, the private companies booked premiums worth Rs 6.34 billion. Most of the new entrants reported losses in the first year of their operation in 2001.

With a large capital outlay and long gestation periods, infrastructure projects are fraught with a multitude of risks throughout the development, construction and operation stages. These include risks associated with project implementation, including geological risks, maintenance, commercial and political risks. Without covering these risks the financial institutions are not willing to commit funds to the sector, especially because the financing of most private projects is on a limited or non- recourse basis.

Insurance companies not only provide risk cover to infrastructure projects, they also contribute long-term funds. In fact, insurance companies are an ideal source of long term debt and equity for infrastructure projects. With long term liability, they get a good asset- liability match by investing their funds in such projects. IRDA regulations require insurance companies to invest not less than 15 percent of their funds in infrastructure and social sectors. International Insurance companies also invest their funds in such projects.

Insurance costs constitute roughly around 1.2- 2 percent of the total project costs. Under the existing norms, insurance premium payments are treated as part of the fixed costs. Consequently they are treated as pass-through costs for tariff calculations.

Premium rates of most general insurance policies come under the purview of the government appointed Tariff Advisory Committee. For Projects costing up to Rs 1 Billion, the Tariff Advisory Committee sets the premium rates, for Projects between Rs 1 billion and Rs 15 billion, the rates are set in keeping with the committee's guidelines; and projects above Rs 15 billion are subjected to re-insurance pricing. It is the last segment that has a number of additional products and competitive pricing.

Insurance, like project finance, is extended by a consortium. Normally one insurer takes the lead, shouldering about 40-50 per cent of the risk and receiving a proportionate percentage of the premium. The other companies share the remaining risk and premium. The policies are renewed usually on an annual basis through the invitation of bids.

The Life Insurance Corporation of India has been a nation-builder since its formation in 1956. True to the objectives of nationalization, the LIC has mobilised the funds invested by the people in life insurance for the benefit of the community at large. The LIC has, over the years, been investing a major part of its funds primarily in the socially oriented sector. As at 31st March, 2014, 86.21% of its total investments were in the public sector, 0.76% were in the co-operative sector and 19.21% in the private sector.

TABLE 1
GROSS DIRECT PREMIUM INCOME IN INDIA: NON-LIFE INSURERS
(Rs. crore)

Insurer	2014-15	2015-16
Public	18030.74 (7.12)	20643.45 (14.49)
Private	12321.09 (12.09)	13977.00 (13.44)
Total	**30351.83 (9.09)**	**34620.45 (14.06)**

The premium underwritten by 13 private sector insurers in 2015-16 was 13,977 crore as against 12,321 crore in 2014-15. ICICI Lombard continued to be the largest private sector non-life insurance company, which accounted for a market share of 9.52 per cent, although its market share declined from 11.21 per cent in 2015-16. Bajaj Allianz, the second largest private sector non-life insurance company, which underwrote a total premium of 2,482 crore, also saw its market share depleting from 8.63 per cent in 2015-16 to 7.17 per cent.

INDIAN INSURANCE IN THE GLOBAL SCENARIO

In life insurance business, India ranked 9th among the 156 countries for which data are published by Swiss Re. During 2014, the life insurance premium in India grew by 12.1 per cent (inflation adjusted). However, during the same period, the global life insurance premium had contracted by 2.2 per cent. The share of Indian life insurance sector in global market was 2.95 per cent during 2014, as against 1.98 per cent in 2013.

The non-life insurance sector witnessed a marginal growth of 1.91 per cent during 2013. However, its performance was better when compared to global non-life premium, which contracted by 0.1 per cent during the same period. The share of Indian non-life insurance premium in global non-life insurance premium remained very low at 0.46 per cent and India ranked 26th in global non-life insurance premium.

INSURANCE PENETRATION & DENSITY IN INDIA

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). Since opening up of Indian insurance sector for private participation, India has reported increase in both insurance penetration and density. But, the increase has been almost entirely contributed by the life insurance sector.

INSURANCE PENETRATION IN SELECT COUNTRIES - 2016

TABLE 2

INSURANCE PENETRATION AND DENSITY IN INDIA

Year	Life		Non-Life		Industry	
	Density (USD)	Density (USD)	Density (USD)	Penetration (%age)	Penetration (%age)	Penetration (%age)
2008	9.1	2.15	2.4	0.56	11.5	2.71
2009	11.7	2.59	3.0	0.67	14.7	3.26
2010	12.9	2.26	3.5	0.62	16.4	2.88
2011	15.7	2.53	4.0	0.64	19.7	3.17
2012	18.3	2.53	4.4	0.61	22.7	3.14
2013	33.2	4.10	5.2	0.60	38.4	4.80
2014	40.4	4.00	6.2	0.60	46.6	4.70
2015	41.2	4.00	6.2	0.60	47.4	4.60
2016	47.7	4.60	6.7	0.60	54.3	5.20

Source : Swiss Re, Various Issues.

The insurance density of life insurance sector had gone up from USD 9.1 in 2008 to USD 47.7 in 2016. Similarly, insurance penetration of life sector had gone up from 2.15 per cent in 2008 to 4.60 per cent in 2016.

The penetration of non-life insurance sector in the country remains near-constant for the last 9 years at around 0.60 per cent. However, there is a marginal increase in density, which has increased from USD 2.4 in 2008 to USD 6.7 in 2016.

Non-Life Insurance

As on 31st March, 2014 there are 26 general insurance companies, which have been granted registration for carrying out non-life insurance business in the country. Of these, six are in public sector and the rest are in private sector. Among the public sector companies, there are two specialized insurance companies: one for credit insurance (ECGC) and the other for crop insurance (AIC). Out of the 17 private sector companies, two have been granted licence during 2009-10. The business growth figures in the following paragraphs excludes specialised and three standalone health insurance companies.

Premium

The non-life insurance industry underwrote a total premium of 34,620 crore in 2015-16. The public sector insurers exhibited an impressive growth in 2015-16 at 14.49 per cent.

TABLE 3

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TABLE 4

GROSS DIRECT PREMIUM INCOME IN INDIA

	Total (Rs. in Crore)		Market Share (In per cent)	
Grand Total	34620.45	30351.82	100.00	100.00
Company	2014-15	2015-16	2014-15	2015-16
National	4625.18	4279.90	13.36	14.10
New India	6042.51	5508.83	17.45	18.15
Oriental	4736.71	3964.23	13.68	13.06
United	5239.05	4277.77	15.13	14.09
Sub-Total	20643.45	18030.73	59.63	59.40
Royal Sundaram	913.11	803.36	2.64	2.65
Reliance	1979.65	1914.88	5.72	6.31
IFFCO-Tokio	1457.84	1374.06	4.21	4.53
TATA AIG	853.80	823.92	2.47	2.71
ICICI Lombard	3295.06	3402.04	9.52	11.21
Bajaj Allianz	2482.33	2619.29	7.17	8.63
Cholamandalam	784.85	685.44	2.27	2.26
HDFC Ergo	915.40	339.21	2.64	1.12
Future Generali	376.61	186.49	1.09	0.61
Universal Sompo	189.28	30.14	0.55	0.10
Shriram	416.93	113.76	1.20	0.37
Bharti AXA	310.82	28.50	0.90	0.09
Raheja QBE	1.32	-	0.00	-
Sub-Total	13977.00	12321.09	40.37	40.59

The above table also explains that total collection of public and private sector's insurance has been represented which is increasingly rapidly. It again represents positive contribution of Indian insurance industry in economic development.

CONCLUSION

Liberalization has led to the entry of the largest insurance companies in the Indian insurance market and has become more attractive for foreign insurers due to saturation of insurance market in many foreign countries. That is why Indian insurance industry has become a growing industry with many domestic and international players. Different life insurance companies increased the competition in this industry. This level of competition has increased the number of innovative and attractive insurance plans, better customer services and increased insurance awareness in India. Huge population in our country and a big untapped market has increased its scope of growth for next many years.

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