

Private Life Insurance Companies -A Long Way to Go...

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Abstract

The Indian insurance industry was thrown open to competition from the private sector in the year 2000. The opening up of the industry has helped insurance customers in general and the private insurers in particular. The private insurers have been growing on an average of 77% since its inception. People purchased private sector's insurance products mainly because of their professional approach and better service. Yet, their customers are not ready to recommend them to others. This is because of lack of confidence and trustworthiness. So, the author is of the opinion that, private insurers have taken off but still have a long way to go...

Introduction

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The year 2000 was a defining moment in the history of Indian Insurance. For the first time the sector was opened up to private sector. Today, Insurance happens to be a mega business in India. It is a business growing at the rate of 15 to 20 percent annually, together with banking services it adds about 7% of the GDP. Yet nearly 80% of the population is without life insurance cover. Though the life insurance penetration and the density has reached to 4.10% of GDP and \$ 33.2 respectively in the year 2006-07, it is still very low when compared to international standards. Among the 87 countries studied for insurance penetration and density, India ranks 76th. The Indian contribution to the world insurance business was just 1.68% in 2006. The penetration level of life insurance in India is one of the least in the world.

Objectives of the Study

- To study the growth of private insurers and the impact on the business due to privatization.
- To study the private life insurance policies purchased, reason for purchase, the satisfaction level, the benefits drawn, companies recommended by the policy holders of Mumbai.

Research Methodology

Both primary and secondary data is used. Survey method is followed for the study. Primary data was collected with the help of questionnaire with open ended and close ended questions posed on insurance policyholders. For the purpose of sampling, the Mumbai city is divided into three stratum, namely, South Mumbai, Western Suburb and the Eastern Suburb. On the basis of the population of Mumbai, the sample size of 400 policyholders were randomly selected and are proportionately divided as 115 from South Mumbai, 115 from Eastern Suburb and 170 from Western Suburb.

Review of literature

There is enough literature on liberalization and privatization of insurance in India, the role of IRDA, the Tariff Advisory Committee and the insurance penetration and density. Though, there are many published articles written by various authors and experts, there is no specific detailed study conducted in this regard. For the purpose of research, I studied *the IRDA Reports 2001-02 to 2007-08*, articles of *Insurance Chronicle* April 2006 and *IRDA journal* April 2005 and August 2006.

Growth of Life Insurance Business after privatisation

In 2000-01, when the industry was opened up for the private players, the life insurance premium was Rs. 34,898.48 crore but the same has grown up to Rs. 2,01,351.41 crore in 2007-08 with a 576.96% growth. Private insurers have improved their market share from 18.10 % in 2006-07 to 25.61 % in 2007-08 in the total premium collected during the year. Their first year premium collection (other than single premium) has surpassed the LICs premium for the first time after privatisation (figure-1).

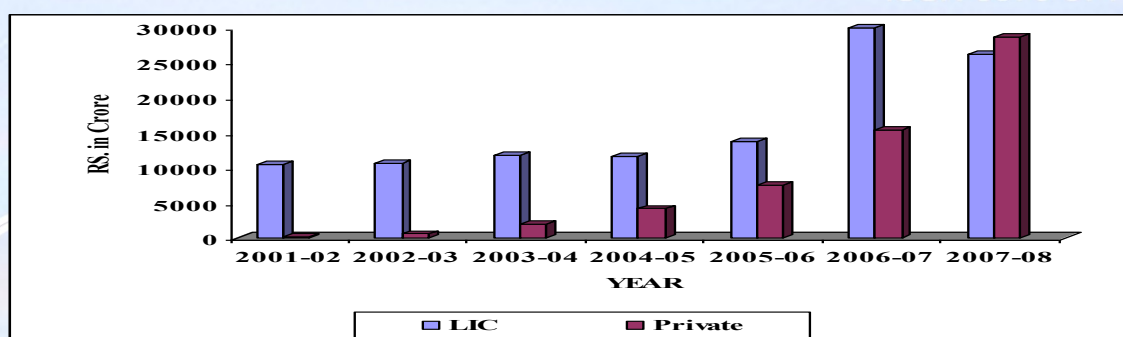


Figure-1 First year premium (other than single) collected by life insurance companies

But in the single premium policy sales, LIC is the undisputed leader. The number of policies issued by private insurers grown at 67.40% as against LICs -1.61% in the same year (table-1).

**TABLE-1
New Policies Issued**

Insurer	2005-06	2006-07	2007-08
Private sector	38,71,410(73.37)	79,22,274(104.64)	1,32,61,558(67.40)
LIC	3,15,90,707(31.75)	3,82,29,292(21.01)	3,76,12,599 (-1.61)
TOTAL	3,54,62,117	46151566	5,08,74,157

Note: Figure in brackets indicate growth rate (in per cent).

Source: *IRDA Annual Reports 2006-07 and 2007-08*

The growth in first year premium was fuelled by increase in sale of unit linked products. This trend is being observed for the last three years (table-2).

TABLE-2

Trends in life insurance business—Unit linked insurance plans

	Unit linked policies%			Non linked policies%		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Private	82.30	88.75	90.33	17.70	11.25	9.67
LIC	29.76	46.31	62.31	70.24	53.69	36.69
Industry	41.77	56.91	70.30	58.23	43.09	29.70

Source: IRDA Annual Reports 2006-07 and 2007-08

The analysis of table -2 reveals that the private life insurance companies’ business is mainly dependent on ULIP. This is not only a healthy trend for private companies but also for the industry.

Analysis of data

(a) Policies purchased

The awareness level of the 400 respondents was taken into account and also their source of information. Overall, Money back policy is the well-known policy with 92.00% (368 out of 400), ULIP came second with 81.00% (324 out of 400). Out of the total 855 policies purchased 194 policies were Money Back Policy – the highest. Out of these 194 policies 183 policies were bought from the public sector life insurance company LIC.

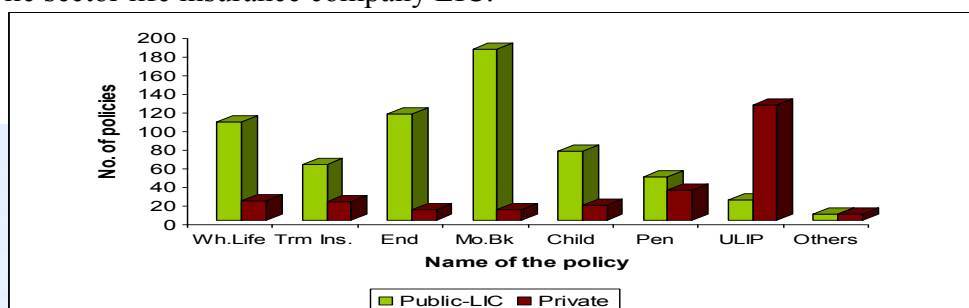


Figure -2 Sector wise Purchases of Life Insurance Policies

Among the 147 ULIP policies purchased, 125 policies were from private life insurance companies. The sector wise analysis reveals that the LIC topped the list with 71.35% while private sector life insurance companies got 28.65% (figure-2).

The study reveals that LIC dominates the market except in ULIP and Pension policies. It dominated especially the Money Back policy (94.32%) and Endowment policy (91.2%). But interestingly when it comes to ULIP private insurance companies are the market leaders with 84.83%. In Pension Policies LIC has a very close edge over private life insurance companies, as pension policy from LIC contributes 51.97% whereas private insurance companies are close at 48.03%. Thus it is obvious that private insurance companies are giving a tough competition to LIC.

(b) Reason for purchase

**TABLE-3
Sector wise Reason for purchase of Life Insurance Policies**

Reason	Public sector LIC		Private sector		Total	
	f	%	f	%	f	%
Tax saving	243	32.97	77	25.08	320	30.65
Investment	128	17.37	94	30.62	222	21.26
Child education	62	8.41	13	4.23	75	7.18
Safety & security	81	11	30	9.77	111	10.63
Life cover & tax	16	22.12	58	18.89	221	21.17
Retirement	51	6.92	29	9.45	80	7.66
Specific needs	6	0.81	4	1.30	10	0.96
Others	3	0.41	2	0.65	6	0.48
Total	737	100	307	100	1044	100

The analysis for the reasons for purchase of policies reveals that the tax saving (30.74%) is the major reason for buying the insurance products which is closely followed by investment (21.09%) and Life cover & Tax saving (20.90%). The public sector – LIC’s policies are mainly purchased for tax saving (32.97%) while life cover & tax saving (22.12%) rank next. But the private life insurance companies’ products are purchased primarily for investment purpose (30.62%).

(c) Satisfaction level

Out of the 221 respondents who responded for LIC, 86 (38.91%) of them indicated their satisfaction level as ‘very good’, while 108(48.87%) responded as ‘good’, 9.05% said ‘average’ but only 1.36% said poor. This shows that the people are happy with the services of LIC.

For private sector, 39.29% of the respondents said that the services of private insurance companies are ‘very good’, while 51.79% of the respondents said ‘good’, 7.14% respondents said ‘average’ and 1.79% said ‘poor’. This shows that the satisfaction level of private sector insurance companies are little better than that of LIC i.e. by 3.92%.

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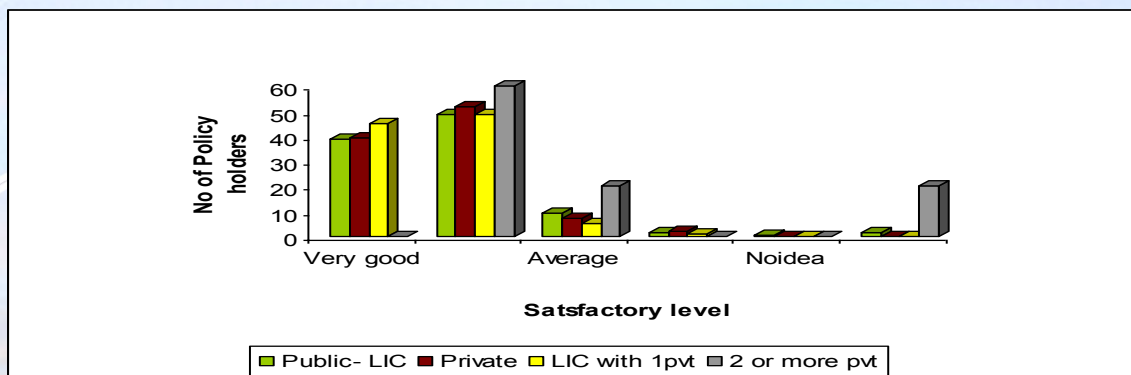


Figure -3 Satisfaction level of the Life Insurance Policy holders

(d) Ranking of benefits

The respondents were asked to respond to the benefits provided by the private sector insurance companies. The options that the respondents responded were – Better service, Professional approach, Timely claim settlement, Good returns, Attractive scheme, Variety of products, Less premium, Less formalities, Trustworthiness and None of them. They were also asked to rank these benefits. The following is an analysis of benefits.

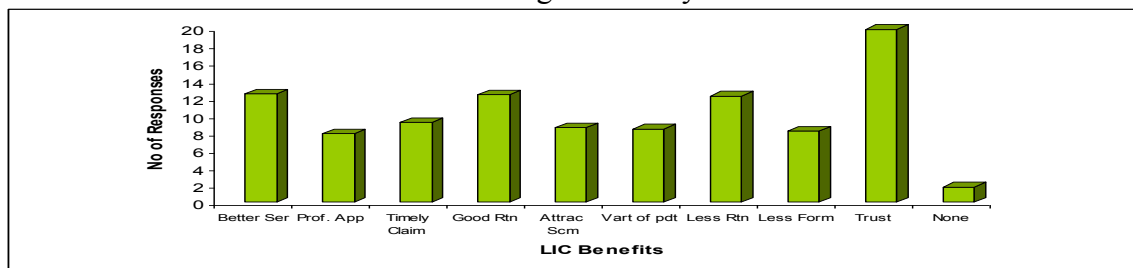


Figure -4 Ranking of benefits of LIC

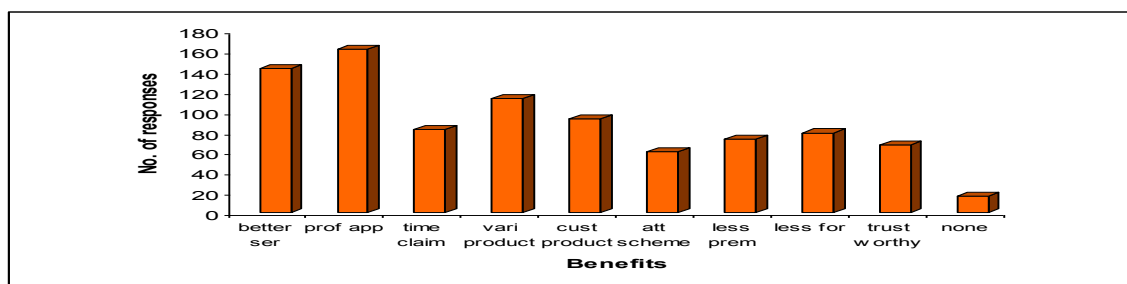


Figure -5 Ranking of benefits of private life insurance companies

Majority of the respondents ranked ‘Professional Approach’ as first, ‘Better Service’ as second and ‘Good Return’ as third. From the above results it is clear that people purchased private sector insurance companies’ products mainly because of their professional approach and better service.

(e)Recommendation of private insurance companies by customers

The respondents were asked whether they would like to recommend a particular insurance product /company. Only 344 out of 400 respondents responded. The study revealed that 45.35% of the respondents recommend Public Sector Life Insurance Company - LIC and only 9.30% of the respondents recommend Private Sector Life Insurance Company. An analysis of the raw data reveals that for LIC, the money back policy is the most recommended policy, while for the Private it is the ULIP.

**TABLE -4
Recommendations of Life Insurance Products and Companies**

Company	Frequency	Valid Percent
Public sector	156	45.35
Pvt. sector	32	9.30
Cant.say	48	13.95
Pub.&Pvt.	93	27.03
Pub.(or)Pvt	15	4.36
Total	344	100.0

Findings *Multi-Disciplinary e-Research Journal*

It is found that money back policy is the most purchased policy (22.69%) while ULIP is the second most (21.40%) purchased policy.

The other objective of the study was to find out whether the growth of private insurance companies has affected the growth of public sector insurance company LIC. Among the new policies purchased by the respondents after the year 2001, LIC’s share was only 39.95% while the private life insurance companies share was 60.05%. This shows that the private life insurance companies could sell 50% more policies than that of the policies sold by LIC. After going through the analysis it is concluded that the growth of LIC is affected because of the growth of private sector life insurance companies. The same is confirmed by secondary data.

The next important finding is that the satisfaction level of the respondents towards private life insurance companies was 3.92% more than the LIC.

The respondents have given ‘Trustworthiness’(80%) as the major reason for purchase of life insurance products from LIC, on the other hand the private sector respondents gave first rank for ‘Professional approach’. This analysis shows that the public sector life insurance company

LIC enjoys the 'Government seal', but the private insurance companies were standing on their professional approach and service.

The main problem to private sector is when it comes to recommendations of new products and companies, their customers are not ready to recommend them. This is because of lack of confidence and trustworthiness.

Conclusion

From the study, it is understood that the majority of the policy holders are buying policies for tax saving only. Life cover becomes the third reason to buy insurance products. This trend has to change. This shows that public has not understood clearly the purpose of insurance. So, it is suggested that the life insurance companies should conduct insurance awareness campaign with the help of advertisements and social groups. The awareness on insurance has to increase at a very young age.

Since the public looks for 'trustworthiness' in a company while buying a insurance product, it is suggested that the private non life insurance companies should spend on advertisement campaigns, social spending for brand building so as to create trust in the minds of customers. Also, some motivational steps could be taken for the recommendation made by the customers.

The other major problem is that the private life insurance companies are heavily depending on market linked policy ULIP. This is not a healthy trend since the market volatility will affect the growth of business. The attractive schemes of private sector will be more attractive and effective if they could add more varieties to attract.

The private insurers have to increase efforts to design new products that are suitable for the market and make use of innovative distribution channels to reach a broader range of the population. From the analysis it is clear that private insurers have taken off but still have a long way to go...

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