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CONTENTS

Results of Liberalized India's Insurance Sector: Challenges and Opportunities

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The insurance industry is one of the fastest growing industries in the country, and is growing at a rate of 26% per annum. The outcome of liberalization over a period of five years has been positive in terms of the premium underwritten and the annual growth rate. Private life insurers have captured 26% of the market share. While bancassurance being in its nascent stage has made little progress in improving penetration of insurance business, the proposed government's move to withdraw the guarantee of the 16 crore policies of LIC of India may prove to be a hurdle for the growth of the insurance business in the coming years. With more than 60% of the rural people uncovered, the role of private insurance players becomes all the more significant.

Insurance industry in India has changed substantially and has responded to a changing environment on the basis of Malhotra committee 1993 recommendations by allowing private parties in insurance industry since 2000 onwards. The insurance industry is one of the fastest growing industries in the country and is growing at 46% each year. Private players have captured a sizeable chunk of business in these five years. According to Economic Survey, insurance business in India is worth Rs. 400 bn (US$10 bn), and as insurance and banking services together contribute 7% of the GDP, the growth of premium income becomes significant. The funds available with the State-owned LIC for investments are 8% of GDP.[1] The overall size of the market has expanded interms of all acceptable yardsticks with an annual growth rate of 15-20% and the largest policies are in force. The potential of Indian Insurance Industry is huge. For, Liberalized insurance industry which completed half-decade (2000-05), evaluation of liberalized insurance business in a span of five years is not too early and it is essential to evaluate the results of private players as crores of rupees have been invested by the private players as well as the government. With, three fourth of India's population with no insurance coverage, Indian insurance industry needs to make a long journey to complete, before it attains the total insurance penetration.

An attempt is made to evaluate the results of the private insurance players. This paper covers competition environment in life and non-life insurance business, market share of the private players, global scenario, and challenges and opportunities that are available for new players and

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[1] Arup chatterjee, "*Looking back, Looking ahead*", *IRDA Journal*, February 2006.

finally, suitable suggestions have been made to foster the competition in insurance industry. The period of this study is five years from 2000 to 2005. The year 2000 was the entry of private players in insurance industry. Over the last five years, the insurance industry has witnessed a remarkable and impressive development in the sector. In the light of the above discussion, the following objectives have been formulated.

Objectives

- To evaluate the results of the liberalized insurance sector in India;
- To study the role of investment in terms of premium collection, annual growth rates, and penetration of insurance sector; and
- To study the role of bancassurance in insurance industry.

Hypotheses

To fulfill the above objectives, the following hypotheses have been formulated, such as:

- The objective of liberalization has been fulfilled in a span of five years.
- Huge investment leads to better results in terms of premium collection, annual growth rate, market share and penetration.
- Bancassurance gives a lot of confidence building in the minds of typical Indian customers.

Background of the Insurance Sector

The insurance industry in India has changed substantially and has responded to a changing environment on the basis of the plan recommended by the Malhotra Committee, appointed by the Government of India in 1993. The recommendations of the committee tabled in the Parliament in 1994 and implemented since 2000[2] have had a splendid impact on the country's life and non-life business of Insurance sector. However, some of the recommendations of the Malhotra Committee were:

- Liberalization of the market by allowing the private companies for healthy competition to end the monopoly of the Life Insurance Corporation (LIC) and General Insurance Corporation (GIC);
- Creation of Insurance Regulatory Development Authority (IRDA) as an independent regulatory body for monitoring the insurance companies;
- Professionalizing and broadening the cost-effective distribution channels;
- Up-gradation in the technology to provide better services, reduction of mandatory investment from 75 to 50% of life insurance companies in government securities,
- De-linking the four subsidiaries of general insurance companies from the holding company to General Insurance Company, not allowing composites (transacting life and non-life insurance business) and entry of initial capital of Rs. 100 cr[3].

[2] Insurance Bill-2000, Government of India, October 2000. p. 26.

[3] Malhotra Committee Report.

Competition Environment

In the regime of the pre-reform era, the insurance sector never experienced a competitive environment. A shift from a public sector monopoly to the entry of Indian Private partners and foreign partners would definitely usher competition in the sector.

Life Insurance

As per the figures available with IRDA reports for the period ended in August 2005, the 13 private players have grabbed nearly 26% market share from LIC in terms of premium underwritten as against 17.70% in August 2004[4]. The list of insurer with premium underwritten, investment and their market share have been presented in Table 1.

Table 1 shows that the life insurance market has collected Rs. 16,604 cr as a fresh premium, it grew about 46.45% in the first eight months of 2005-06. Similarly, LIC is also not doing badly either: 2.8 times bigger than the 13 players put together in terms of premium collection. It is still growing at the rate 26% per annum. It is relevant to that the capital employed by the private players has linked to the premium collection and acquiring of the market share by them. Out of 13 private players, ICICI prudential has leading private player in life insurance, invested Rs. 625 cr which is the highest investments among the private players and captured first position with 7.11% of the market share. Secondly, Max New York Life has invested Rs. 305 cr and had failed to capture the second position in terms of market share and was satisfied with only 1.32%. Followed by HDFC standard Life had invested Rs. 255 cr and 2.96% of the market share was captured and stood third position interims of investment and capturing market share. Allianz Bajaj has invested Rs. 250 cr and stands fourth in terms of investment but captured second position with 6.12% of the market share. This indicates that there is no relation between investment and acquiring market share and mere capital is not alone playing any significant role in terms of capturing market share. There may be some other variables like: (a) innovative schemes, (b) brand loyalty, (c) professional outlook, (d) transference in their transactions, etc. It can be noticed that the capital is not playing any attaching, kindly significant role in terms of premium collection and capturing market share. It seems to be Bajaj Allianz would occupy the first position in near future in terms of market share as well as annual growth rate.

Chart 1: Share of Private Insurance Players

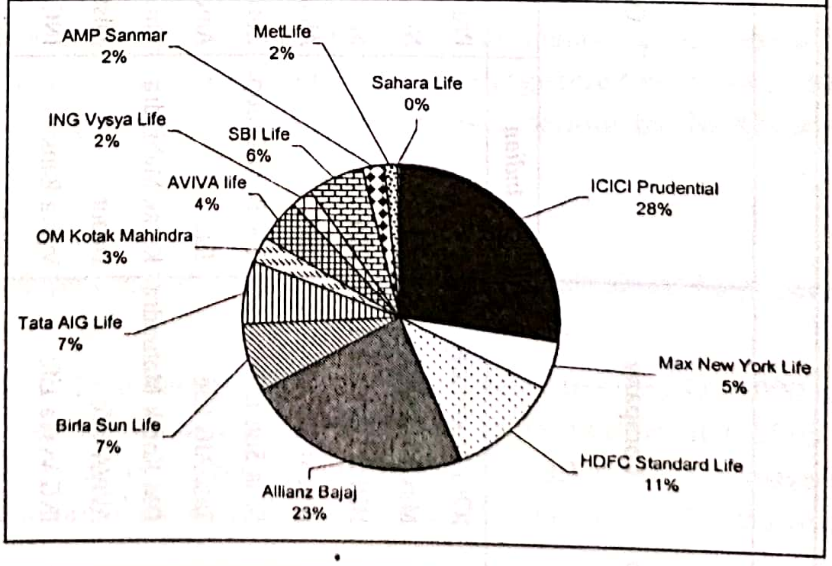


Chart 1 shows that, among private players, the ICICI prudential has captured the 28% of the market share up to December 2005, followed by

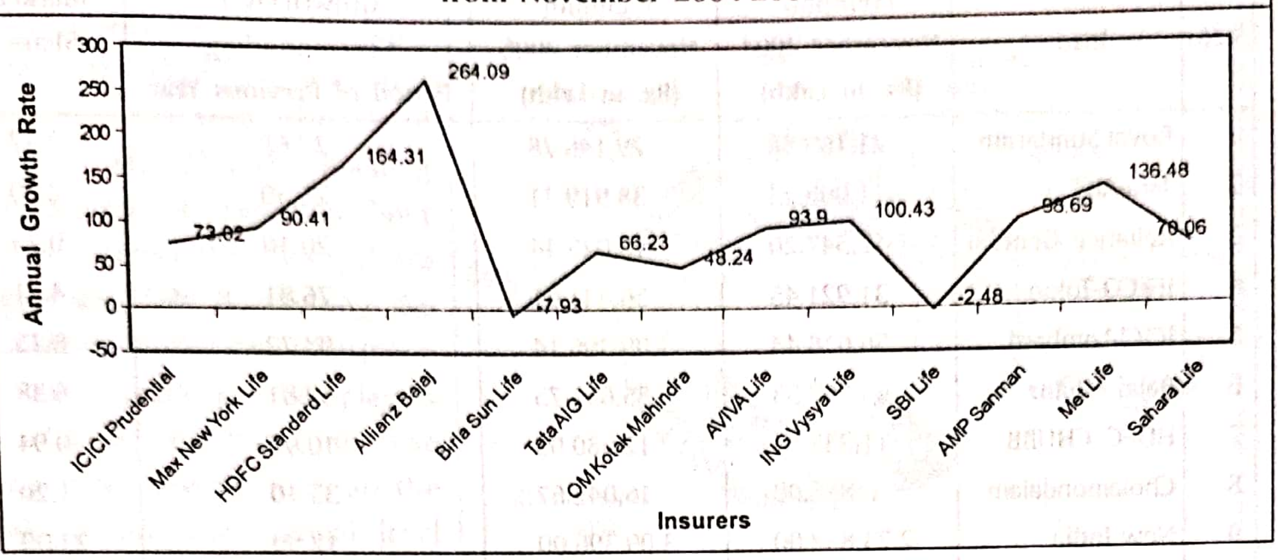
[4] *IRDA Journal*, September 2005.

Table 1: Life Insurance Companies in India

S.No	Company	Origin		Paid up Capital (Rs. Crore)	Premium Collection (Rs. in Lakhs)		Growth Over the Corresponding Period of Previous Year	Market Share
		Indian	Foreign		Upto November 2004	Upto November 2005	(%)	(%)
1	ICICI Prudential	ICICI	Prudential (UK)	625	68,193.71	1,17,988.12	73.02	7.11
2	Max New York Life	Max	New York Life (New York)	305	11,508.90	21,914.62	90.41	1.32
3	HDFC Standard Life	HDFC	Standard Life (UK)	255	18,575.85	49,097.31	164.31	2.96
4	Allianz Bajaj	Bajaj	Allianz Holding (Germany)	250	27,899.78	1,01,581.49	264.09	6.12
5	Birla Sun Life	C K Birla Group	Zurich Insurance (Switzerland)	290	33,136.96	30,509.74	-7.93	1.84
6	Tata AIG Life	Tata	American Int. Group (USA)	231	17,825.58	29.632.08	66.23	1.78
7	OM Kotak Mahindra	Kotak Mahindra	Chubb (USA)	203	7,905.27	11,718.76	48.24	0.71
8	AVIVA Life	Dabur	Allstate (USA)	240	9,598.70	18,611.48	93.90	1.12
9	ING Vysya Life	Vysya Bank	ING (Netherlands)	200	5,226.23	10,474.97	100.43	0.63
10	SBI Life	SBI Bank	Cardiff SA (BNP Paribas bank)	175	25,871.14	25,228.53	-2.48	1.52
11	AMP Sanmar	Sanmar Group	Gio (Australia)	160	4,483.94	8,909.12	98.69	0.54
12	MetLife	MA Chidambaram	MetLife (USA)	120	2,807.34	6,644.30	136.48	0.40
13	Sahara Life	Sahara	Life	100	1.34	948.41	70.06	0.06
	Private Total				2,33,034.20	4,33,258.95	85.92	26.09
	LIC				9,00,724.63	12,27,104.27	36.24	73.91
	Grand Total				11,33,758.83	16,60,363.22	46.45	100.00

Source: IRDA Monthly Journal, January 2006.

Chart 2: Annual Growth Rate of Private Insurance Players from November 2004-2005



Allianz Bajaj with 23% and HDFC Standard life with 11%, TATA AIG life and Birla SunLife with 7% each and remaining other players have captured less than 5% of marker share.

Chart 2 shows that the annual growth rate of the private life insurance players from November 2004–2005. It is interesting to note that Allianz Bajaj has achieved 264.09% annual growth rate in terms of premium collection and the fastest growing insurance players, followed by HDFC Standard with 143.1% and MetLife with 136.45, and remaining other players have doubled their premium in a span of one year, whereas Birla Sunlife and SBI Life have failed to collect the premium consistently and registered negative growth rates 7.93% and 2.48% respectively. Surprisingly, ICICI prudential company has not been retrained in their leading position in 2005.

The market share of the LIC has been declining since 2000, after opening up of the sector to private companies. LIC's higher market share in the number of policies sold compared with premium income, so it is to be inferred that the private players are cornering a larger share of high premium policies. Further all policymakers are expected that, insurance business will take wings under banccassurance but despite the belief SBI Life was registered negative 2.48% annual growth rate in corresponding period. It is need to be viewed serious by the RBI and IRDA authorities.

Non-life Insurance

Hence, the general insurance players and their growth rate and market share have been presented in Table 2.

Table 2 shows that the ICICI Lombard became the first private player to cross Rs. 1,000 cr in premium collection even as general insurance industry grew by 15.5% till November 2005[5]. Increased competition from private players saw them grab 26.7% of the market as the 12 players together collected Rs. 13,422 cr in premium in April-November 2005 from Rs. 11,619 cr a year

[5] *The Economics Times*, January 13, 2006.

S.No	Insurer	Premium November 2004 (Rs. in Lakh)	Premium November 2005 (Rs. in Lakh)	Growth Over Corresponding Period of Previous Year	Market Share
1	Royal Sundaram	21,169.88	29,146.78	37.68	2.17
2	Tata-AIG	31,008.23	38,919.31	25.59	2.90
3	Reliance General	12,547.20	16,025.44	20.10	0.75
4	IFFCO-Tokio	31,921.45	56,441.61	76.81	4.21
5	ICICI-Lombard	56,618.44	1,09,396.14	93.22	8.15
6	Bajaj Allianz	53,597.53	85,651.75	59.81	6.38
7	HDFC CHUBB	11,335.55	12,580.05	10.98	0.94
8	Cholamondalam	11875.00	16,042.67	35.10	1.20
9	New India	2,73,832.00	3,09,396.00	12.99	23.05
10	National	2,51,418.00	2,31,537.00	7.91	17.25
11	United India	2,01,498.00	2,09,975.00	4.21	15.64
12	Oriental	2,05,113.00	2,33,128.00	13.66	17.37
13	ECGC	—	1,03,395.39	—	—
	Private Total	2,30,073.28	2,54,807.61	—	26.69
	Public Total	9,31,861.00	9,84,036.00	—	73.31
	Grand Total	11,61,934.37	13,42,239.75	15.52	100.00

Table 2: Non-Life Insurance Companies in India

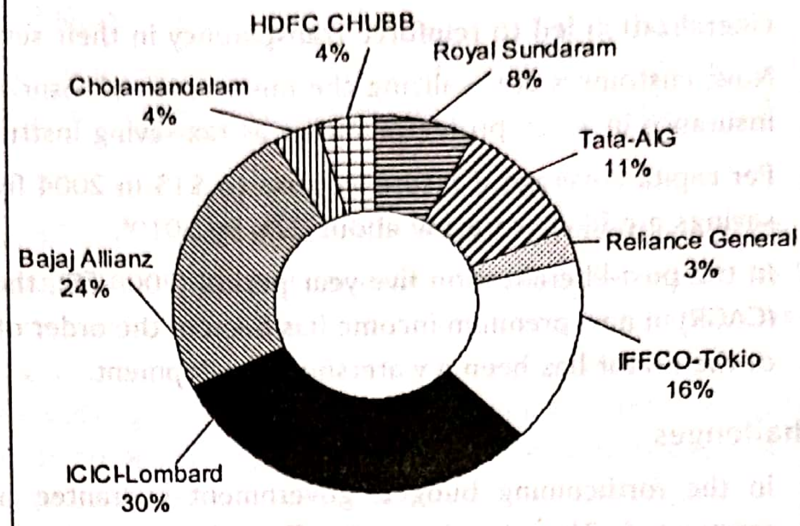
Source: IRDA January 2006.

ago, according to data compiled by Insurance Regulatory and Development Authority. With five players—New India and Oriental Insurance from PSUs and ICICI Lombard, Bajaj Allianz and Iffco-Tokio from private space leaving no stone unturned got increasing market share, policy holders can expect improvement in service.

Market leader New India grew by 13% to collect Rs. 3,094 cr in domestic premium and had a pie of 23.05% of the non-life industry. Delhi-based Oriental Insurance was at the second spot by clocking over 13% growth to collect Rs. 2,331 cr and a market share of 17.37%. The decline in National Insurance business continues as its premium income fell by 8% to Rs. 2,315 cr and had 17.25% of the market. With a modest growth of 4.21%, United India Insurance was at the fourth place collecting Rs. 2,099 cr in premium income and a market share of 15.64%. Among the private players, ICICI Lombard became the first insurer to cross Rs. 1,000 cr mark as it doubled business to Rs. 1,094 cr and had a market pie of 8.15%. Bajaj Allianz and Iffco-Tokio are the two other fastest growing private players by collecting Rs. 856 cr and Rs. 564 cr in premium respectively. Bajaj Allianz had a market share of 6.38% while Iffco-Tokio had 4.21% of the market. Tata AIG collected Rs. 389 cr (2.9%), followed by Royal Sundaram Rs. 291 cr (2.17%) and Cholamandalam (1.2%). HDFC Chubb and Reliance General, which continues to see decline in business, had less 1% market pie each. However, among the non-life private insurer, their market share interms of premium underwritten has been presented in Chart 3.

Chart 3 shows that the ICICI Lombard has captured 30% of the market share followed by Bajaj Allianz with 24%, IFFCO-Tokio with 16%, TATA AIG with 11%, Royal sundaram with 8% and remaining other players have captured about 4%. This shows that few private players are only dominating the life and non-life insurance business. And the remaining other players are failed to stand in the competitive environment. So the IRDA should create equal level playing field to all the insurers.

Chart 3: Market Share Non Life Insurers



Global Scenario

While the per capita insurance premium in developed countries was very high, it was $4,800 in Japan, $1000 in republic Korea, $887 in Singapore, $823 in Hong Kong and $144 in Malaysia, it was only $8 in India in 2000. The insurance premium in terms of percentage of GDP was 14% in Japan, 13% in South Africa, 12% in Korea, 9% in UK and less than 2% in India during the same period. Similarly, the insurance premium in terms of percentage of Gross Domestic Saving (GDS) was 52% in UK, 35% in other European countries and American countries; it was only 9% in India in corresponding period[6].

According to IRDA sources, the insurance premium per capita in India has increased to $16.90 in 2005, and the overall penetration in India stood at 3.28% of the GDP. India's overall world ranking in terms of total premium volumes improved from 23rd in 2000 to 19th in 2005 and its share in the world market increased from 0.41% to 0.59% during the same period[7].

Impact of Five Years' Privatization

- Over the last five years, since insurance sector was privatized, the insurance industry has witnessed a remarkable and impressive development in this sector. Liberalization of this sector helped in brining out several positive developments as the emergence of a large number of private and foreign players both in life and non-life business are brining in global best practices at the scene wider choice interms of product innovation, proliferation of distribution network both at retail and corporate level.
- Allowing the private and foreign partners in insurance led to tremendous surge in flow of technology, expanded market due to aggressive marketing strategies by private players, mobilizing additional resources for infrastructure and social sector and vibrancy in terms of employment generation.

6 *Business Standard*, January 10, 2006.

7 Insurance Gazette, Special supplement by Business Standard, December 2005.

- Liberalization of industry is benefiting the customers by broadening and deepening the market and introducing better services and standards.
- Liberalization led to reinforce transparency in their services for buyers and sellers.
- Now, customers are realizing the importance of insurance services and they are looking insurance in a risk protector rather as tax-saving instrument.
- Per capita coverage if insurance rose to $15 in 2004 from $7.6 in 1999. Gross Domestic savings are likely to grow about 27% by 2010[8].
- In the post-liberalization five-year period (2000-05), the Compound Annual Growth Rate (CAGR) in new premium income has been of the order of 25%[9]. Apparently, the opening up of the sector has been a watershed development.

Challenges

- In the forthcoming budget, government guarantee on LIC policies may have to be terminated. This decision will affect the more than 16 crore policyholders of LIC[10]. Obviously, it will help to level play in field for the private players. It is a biggest challenge to public sector giant to maintain solvency position.
- In the coming years, insurers would face the most different challenges to provide return as compared to other financial options. Unfortunately, return on investments in India has been declining. Therefore, there is pressure on insurance companies to provide better operational results to safe guard the interest of insuring public.
- The potential of insurance business in India is phenomenal, as insurers do not cover still more than 70% of the population (Yojana, April 2006, p. 21). To augment the penetration of insurance, insurers need to be stabilized by reaching typical rural mass.
- The biggest challenge for the industry is cost-effective distribution. The other issue is the mortality/morbidity bureau, and premium is calculated based on 1994-96 insurance tables. New tables should be created keeping in view of inflationary values.
- Every insurance company in the world wants to come and have a piece of China and India pie, since they do not come in with fuller understanding of the typical Indian problems on the ground and the operational issues. If they would not understand this, it leads to failures and consolidations.
- Recently, the government has decided not to give tax concession for insurance long-term savings, and imposition of service tax (10.2%) and education Cess (1%), the cap of pension limited at Rs. 10,000 and putting all savings together under Section 80 C leads to major set back to the insurers. Whereas, globally, the insurance sector has been given a tax advantage.
- In December 2006, the general insurance industry will step into the detariff regime, that may spark off an intense rate war and wipe out the bottom line of some players. De-tariffing has been made out to be a very complex issue.

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8 *Business Standard*, January 10, 2006.

9 G N Bajpal, "The Quest for Insurance Cover," *Business Standard*, December 15, 2005.

10 *The Economics Times*, February 13, 2006.

- Now, most of the companies are facing the problem of Break-Even Point. For instance, AMP Sanmar shares worth of Rs. 217 cr were sold to Anil Ambani's Reliance Capital for Rs. 100 cr (Insurance Chronicle, April 2006, p. 17).
- No doubt about the competition will rise in the coming year. But it is to see how many players will survive. It might be possible than era of acquisition or consolidation may arise.

Opportunities

- Liberalization of this sector has offered tremendous opportunities to witness a number of private players to tap the potential of the lucrative market. Over the years, since the industry was liberalized, the private players have strongly strengthened their presence in the industry by attaining the significant in the market. Though the State insurance sector still dominates the market, private players are moving steadily. The life insurance business has shown impressive growth, but reforms do not lead to significant impact on non-life business at the retail level. In India, the insurance penetration is low. India has a population of over a 100 crore, a marginal percentage of it enjoys the privilege of insurance, therefore this huge untapped segment of market would be attracted by the private players to enter the market. Over the next few years, private sector insurance will go to the public, and stocks of insurance companies will become available. 50% of the market share grabbed by the private players in airlines, when they completed ten years of existence. Similarly, private insurer will also grab 50% of market share by the end of 2010. Therefore, for new players, sky is the limit.
- Information technology is transforming industry more than anything else. IT will help to accelerating insurance penetration.
- The next five year will see re-boost growth, fierce competition, the entry of many new players, and a few mergers acquisitions.
- The government is likely to increase the Foreign Direct Investment (FDI) cap from 26% to 49%, which trigger to entry of more players in the market. For example AXA-Bharati Group and another the FORTIS , the Benelux banccasurance major, reported to be negotiating to set up a Joint venture with IDBI bank.
- There is lot scope to do pension, health insurance business in India and ULIP with banccassurance will be growing at good pace.
- India (Census 2000) had about 54 million people above the age of 60. This number is expected to increase to 100 million by 2010. This future senior citizens look towards planning for their own old age and the need for pension and annuities. So there is a grater demand for pension plan for senior citizens in the coming days.
- Another importance factor is allowing the existing network of 1,50,000 post and telegraph offices at rural areas to sell the insurance policies in rural areas leads to tap the huge rural market.

Testing of Hypotheses

The hypothesis: *the objective of liberalization has been fulfilled in a span of five years*, stands valid, since the outcome of liberalization process over a period of five years has been positive and identified as the beginning of new era in insurance business in many aspects, such as: (i) Insurance business annual growth is about 26%, (ii) annual growth rate of premium under written is more than 100%, (iii) private insurer are providing high quality insurance solution to customers through pre-sale advice based on sound need-based solution approach and post-sale advices on pay off, and (iv) finally, private players are coming into the market with customers expected schemes. Hence, this hypothesis stands valid.

The second hypothesis: *Huge investment leads to better results in terms of premium collection, annual growth rate and market share*, is not valid. In terms of paid up capital, ICICI prudential has invested Rs. 625 cr and captured 7.11% of the market share with 73.02% of annual growth rate, followed by Max New York Life invested Rs. 305 cr and failed to capture the second market position with 90.1% annual growth rate. Similarly, HDFC Standard life has invested Rs. 255 cr, is third in terms of investments and captured only 2.96% with 164.31% of annual growth rate. However, Allianz Bajaj life insurance company has invested Rs. 250 cr, is in fourth in terms of investment but captured second position in the market with the highest annual growth rate of 264.09%. Hence, this hypothesis stands invalid.

The third hypothesis: *Bancassurance gives a lot of confidence building in the minds of typical Indian customers*, stands invalid. Evaluating annual growth rate of private insurance players who are having in association with Bank, SBI Life (Indian giant bank) had negative 2.48% of growth rate when compared to previous year, ICICI prudential (leading private bank) had 73.02%. Whereas other players who do not have association with banks had more than 100% annual growth rate and particularly Allianz Bajaj had 264.09%. This shows that banks are not building the confidence among the typical non-insurance Indians. Keeping the above fact, the following suggestion have been made.

Suggestions

- LIC policies may not have the government guarantee in near future, it is, therefore, suggested that the government should allow the LIC to go for public issues, because any insurer has to meet the solvency margins requirements which are stipulated by the IRDA in 2004.
- The insurance companies are trustees of public money, so IRDA should adopt a rigorous system for scrutiny of applications based on financial strength, track record and reputation of the promoters, with regard to compliance with regulation and the strength of internal control system, product innovations, technical and managerial skills, commitment to contribute to India's development as a regional insurance hub an international financial center for setting up insurance companies.
- Government should encourage insurers by offering tax incentives rather than imposing service tax and cess on it, it may be called "premium tax" rather than the service tax because no service is done.
- Private companies were the first to offer Unit Linked Insurance Policies (ULIP) in the form insurance-cum-investment. But ULIP is a long-term investment and must be brought to the notice of the customers. It is suggested that the private companies are strictly regulated and

must follow the laid down capital and solvency requirements, which ensure that they are trust worthy over the long run.

- Insurance business is a capital-intensive industry. It is also a long destination business. India's insurance industry needs capital and a major source of capital would be from foreign investment. So, there is a need to raise the cap of FDI from 26% to 49%. Increase the cap on FDI will both enhance the growth of the insurance industry and improve global confidence in India as a business and investment destination.
- Investment guidelines for insurance companies prescribed by the regulators must be changed to allow and promote access to insurance funds by the corporate sector and infrastructure projects.
- The awareness on insurance in rural India is very low, hence there is an urgent need for increasing the awareness by suitable rural insurance products, effective distribution systems and importantly, orientation of insurance products towards financial risk protection, with low sum assured and small premiums. The distribution cost of rural insurance products is so high when compared to urban products. As in the case of micro rural insurance, it is necessary to have low-cost, seasonal payment mode and effective distribution system should be created to serve the large un-served rural people.
- Insurance companies should offer tailor made and innovative products to tap rural population.
- De-tariffication is an issue that concerns the non-life insurance industry, which is still much to be regulated.
- The data warehouse and mortality and morbidity bureaus are to be created.
- Special efforts should be made to spread message of insurance to the rural needy.
- Private insurance players should play the significant role in social transformation in India.
- The government should reduce the seed capital of Rs. 100 cr to Rs. 50 cr for health insurers.
- Finally, IRDA should monitor the health insurance business more vigorously because it has scope for exploitating the common man at the cost of serious diseases.■

Reference # 45J-2006-07-05-01