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Role & Performances of Private insurance Companies in India, in the Post liberalization Era

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Abstract: Indian insurance market was nationalized in 1956 and Life Insurance Corporation of India (LIC) was set up. LIC of India enjoyed monopoly in Indian Insurance market for more than four decades. In 2000 the Insurance sector has liberalized and Insurance Development Regulatory Authority has set up. The private players are allowed to operate in collaboration with the foreign insurance companies. Initially the foreign Direct Investment in insurance sector was restricted to 26% which was lifted to 49% in 2012. After liberalization the private companies has been making waves. They have been penetrating their business more and more form year to year and has been increasing their market share and presence. The paper focuses the role and performance of private insurance companies for the period from 2001 to 2012. The study will reflect the performance of selected private insurance companies in the areas like number of policies floated, amount of premium collected and the annual growth in the respective areas from 2001 to 2012.

Key Words: Life Insurance, Market Share, Policy floated, Insurance premium, Commission

I. Introduction

Insurance is a forms of contract or agreement under which one part agrees in return for a consideration to pay an agreed amount of money to another party to make good for a loss, damage or injury, to something of value in which the insured has a pecuniary interest as a result of some uncertain event. The history and development of insurance in India can broadly divided into four periods like early periods, Pre-Nationalization period, Post-Nationalization period and Post-Liberalization period. The history of general insurance dated back to the industrial revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th Century. It comes to India as a legacy of British occupation. In 1914, the Government of India started publishing return of insurance companies in India. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about life and non-life business transacted in India by Indian and foreign insurers including provident Insurance societies. The first step towards nationalization of insurance was taken on January, 1956 by the promulgation of Life insurance (Emergency Provisions), Ordinance, 1956. In terms of this Ordinance, the management of the controlled business of insurers was vested in the Central Government. Before nationalization, the insurance industry was organized into 243 autonomous units, each with its own separate administrative structure of offices and field staff, its own separate set of agents and of medical examiners. Their offices concentrated in large cities and their field of operation was confined to the major urban areas. Out of 145, Indian insurance companies, as many as 103 had their head offices in four cities of Bombay, Calcutta, Delhi and Madras. When the corporation was constituted on 1 September, 1956, it integrated into one organization, the controlled business of 243 different units, Indian and foreign, which were engaged in the transaction of life insurance business in India. 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 monopoly till the late 1990s when the insurance sector was reopened to the private sector. The Congress Government (1991-1996) that introduced reforms in various sectors of the economy could not bring about a change in the insurance sector and it was left to the BJP-led coalition to instate the present liberal structure, despite criticism from some of its left support groups. The argument behind opening up of the sector was consumer-centric, which claimed that opening up insurance would give better products and services to consumers; the opponents of privatization argued that in poor country like India insurance needs to have social objectives and newcomers will not have that commitment although the insurance sector was opened to completion again in 1999-2000, it still has some way to go before we can gauge its true performance. Following the recommendations of the Malhotra committee report, in 1999, the insurance regulatory and development authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while insuring the financial security of the insurance market. The IRDA opened of the market in August 2000 with the invitation for application for registration. Foreign companies were allowed ownership of upto 26%. The

authority has the power to frame regulations under section 114A of the insurance act, 1938 and has from 2000 onwards frame various regulations ranging from registration of companies for caring on insurance business to protection of policy holders' interest. Presently 24 insurance companies including LIC of India are operating their business in Indian insurance market.

II. Objectives

The present paper is an attempt to study the role and performance of private insurance companies in India after the liberalization period from 2001 to 2012. It will study the growth of number of policies, the amount of premium collected and the amount of commission paid by the private insurance companies. The paper will also highlight a comparative study of insurance business among top five private insurance companies in India.

III. Data Collection and Analysis

The data to be used in the study are proposed to be collected only from secondary sources like annual reports of IRDA, Journals of IRDA. Few website will also be used to collect the relevant information. The period of the study is from 2001 to 2012. For analysis of the data few statistical devices like percentage, growth rates, correlation and regression will be used.

IV. Analysis and Discussion

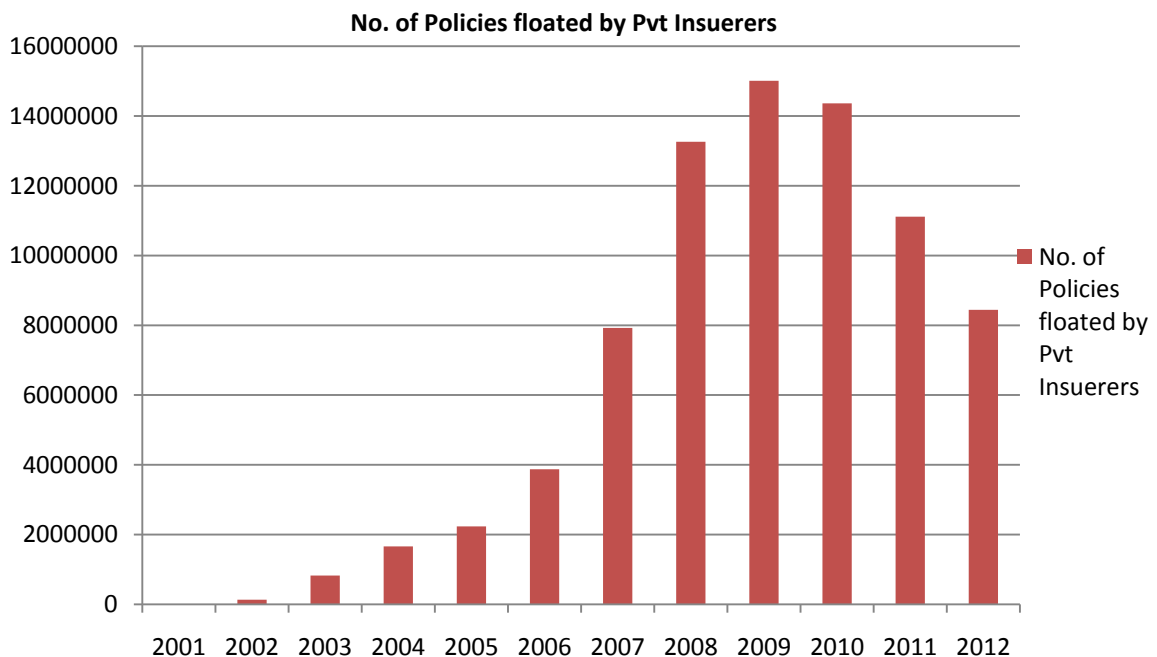
The following table shows the total number of policies floated by the private insurance companies in the post liberalization period.

TABLE 1

Year	No. of Policies by Private Insurers	Growth rate (%)
2001	10000	-
2002	132547	1225.47
2003	825094	522.49
2004	1658847	101.05
2005	2233075	34.62
2006	3871410	73.37
2007	7922274	104.64
2008	13261558	67.40
2009	15011000	13.19
2010	14362000	-4.32
2011	11114000	-22.61
2012	8442000	-24.26

Source: IRDA Annual Reports

Graph 1



Source: IRDA Annual Reports

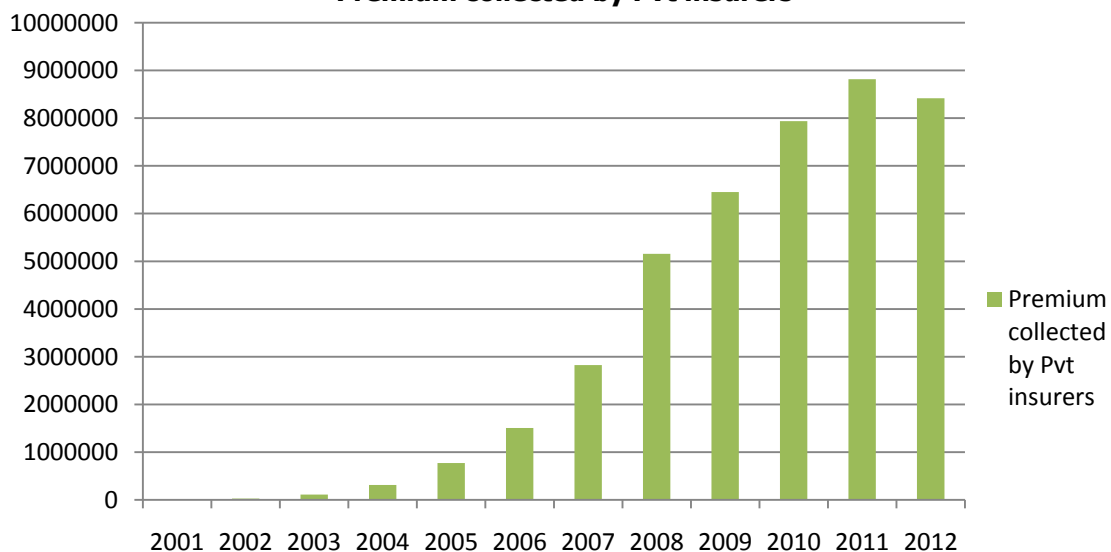
From the above table it is clear that the private insurance companies are growing rapidly. In the year when they are allowed to the insurance sector, they floated only 10,000 policies. But after that year their growth is unpredictable. In the year 2005 they floated total 2233075 policies. In the year 2010 they floated 14362000 numbers of policies. It shows that growth rate of private insurance companies are much higher than the only public sector company LIC. In 2011 and 2012 total numbers of policies floated by the private insurance companies has reduced by 22% and 25% respectively as compared to the respective previous years.

The total amount of premium collected by the private insurance companies also has been increasing in a faster rate like the increase in the number of policies. The premium collected by private insurance companies is given below.

TABLE 2

Year	Amt of Premium by Pvt Insurers (lakh Rs)	Growth Rate
2001	712.07	-
2002	27254.81	3727.55
2003	111906.15	310.59
2004	312032.63	178.83
2005	772750.82	147.65
2006	1508353.79	95.19
2007	2825301	87.31
2008	5156142	82.50
2009	6449744	25.09
2010	7937306	23.06
2011	8816524	11.08
2012	8418283	-4.52

Source: IRDA Annual Reports

Graph 2**Premium collected by Pvt insurers**

Source: IRDA Annual Reports

From the above table and graph it is clear that the amount of premium collected by private insurance companies has been increasing significantly. In the year 2001 when they allowed operating in the market, collected only 712.07 lakhs rupees of premium. But after that year the collection of premium has been growing very rapidly. In 2005 the total premium collection by the private insurance companies reached to 772750.82 lakhs rupees. In 2010 they collected total premium of 7937306 lakhs rupees. The growth rate in collection of premium of private insurance companies is much higher than the public sector insurance company. In 2012 the growth of premium collection is in negative figure and it indicated that the private companies' premium collection has been reduced in 2012 as compared to the previous year 2011.

To study the relation between the number of policies floated and the premium collected by the private insurance companies, two variable are taken like X and Y. The number of policies floated is taken as X variable and it is considered as independent variable. The premium collected by the private insurance companies is taken as Y and it is

considered as a dependant variable. The variable Y is dependant variable on X. The correlation between 'X' and 'Y' is **0.978**. It show that there is a high degree of positive correlation between the number of policies floated and the amount of premium collected by the private insurance companies.

TABLE 3

Year	No. of Policies by private Insurers Independent variable (X)	Amt of Premium by Pvt Insurers (lakh Rs) Dependent Variable (Y)
2001	10000	712.07
2002	132547	27254.81
2003	825094	111906.15
2004	1658847	312032.63
2005	2233075	772750.82
2006	3871410	1508353.79
2007	7922274	2825301
2008	13261558	5156142
2009	15011000	6449744
2010	14362000	7937306
2011	11114000	8816524
2012	8442000	8418283

Source: IRDA Annual Reports

It is also important to study the regression between the number of policies and the amount of premium collected by the private insurance companies. The following table shows the correlation analysis from 2001 to 2010.

→ Regression

Variables Entered/Removed^b

Model	Variables Entered	Variables Removed	Method
1	VAR00001 ^a	.	Enter

a. All requested variables entered.

b. Dependent Variable: VAR00002

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.877 ^a	.769	.746	1808376.09

a. Predictors: (Constant), VAR00001

b. Dependent Variable: VAR00002

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.09E+14	1	1.087E+14	33.234	.000 ^a
	Residual	3.27E+13	10	3.270E+12		
	Total	1.41E+14	11			

a. Predictors: (Constant), VAR00001

b. Dependent Variable: VAR00002

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-30956.1	808480.6		-.038	.970
	VAR00001	.542	.094	.877	5.765	.000

a. Dependent Variable: VAR00002

Residuals Statistics^a

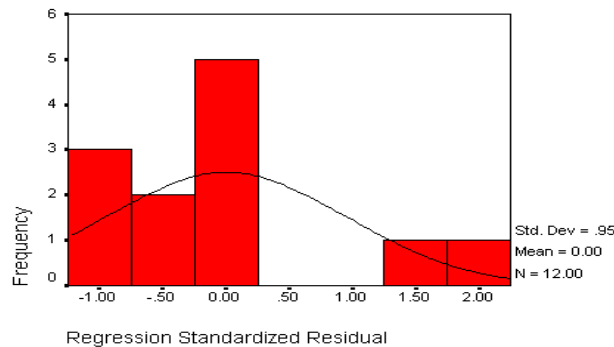
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-25539.3	8100140	3528026	3143301.7062	12
Residual	-1996367	3876412	2.328E-10	1724218.9533	12
Std. Predicted Value	-1.131	1.455	.000	1.000	12
Std. Residual	-1.104	2.144	.000	.953	12

a. Dependent Variable: VAR00002

Charts

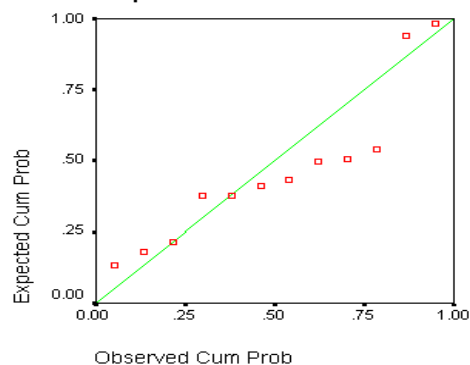
Histogram

Dependent Variable: VAR00002



Normal P-P Plot of Regression Standardized Residual

Dependent Variable: VAR00002



COMPARATIVE STUDY

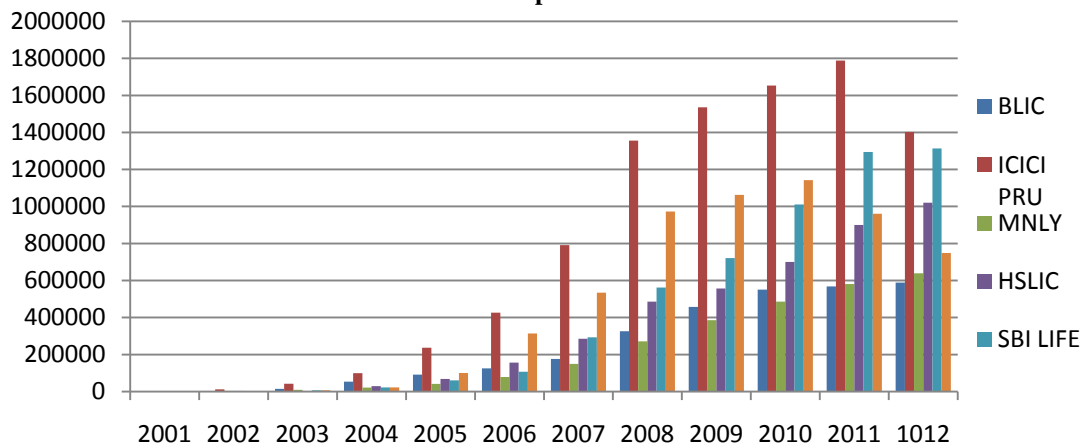
When Indian insurance market was liberalized 2000, and the private players are allowed, four private companies are entered and their numbers has been increasing year by year. As on 30th September, 2012 there are 24 insurance companies are operating in the Indian insurance market and out of which 23 are in private sector and 1 is in the public sector. The present study will show comparative statements of premium collection, commission expenses and their percentage of six selected major private insurance companies including Birla Sunlife, ICICI Pru, Max Life Insurance, HDFC Standard Life, SBI Life and Bajaj Allianz life Insurance. A comparative study is given bellow:

TABLE 4

Amount of Premium collected in lakhs Rs

Year	BSLI	ICICI PRU	MNYL	HSLIC	SBI LIFE	BABAJ A.
2001	31.9	597	15.98	67.19		
2002	2826	11637	3895	3346	1468	714
2003	14392	41762	9659	1488	7239	6917
2004	53754	98928	21525	29776	22567	22080
2005	91547	236382	41343	68663	60118	100168
2006	125566	426105	78818	156991	107532	313358
2007	176617	791299	150028	285587	292849	534524
2008	325713	1356106	271460	485856	562214	972531
2009	457180	1535622	385726	556469	721210	1062452
2010	550556	1653188	486054	700510	1010403	1141971
2011	567707	1788063	581263	900414	1294529	960995
2012	588536	1402158	639053	1020240	1313374	748380

Source: IRDA Annual Reports

Graph 4

Source: IRDA Annual Reports

From the above graph it is clear that the premium collection of all the private companies have been increasing significantly up to 2011. In 2012 the premium collection of ICICI Pru and Bajaj has been reduced and the premium collection of other private companies has increased. Up to 2011 the ICICI Pru has collection of premium has grown the maximum and Max life has the lowest premium collection. The premium collection of SBI life has been increasing significantly from 2002 to 2012. The company has grown very rapidly. The business of HDFC Stand life has also been increasing from year to year including the year 2012. The premium collection growth of Bajaj Allianz was good up to 2010 but after that period the business of the company has been reducing. In the first ten years of business all the private companies have increased significantly by beating all the predictions. All the insurance companies have been taking the help of Agents to float the policy and also to collect the premium. Usually most of the company are taking the agent on commission basis and also providing some other benefits and incentives. The commission expenses of private insurance companies are given below:

TABLE- 5

Amount of Commission paid in lakhs Rs

Year	BSLI	ICICI PRU	MNYL	HSLIC	SBI LIFE	BABAJ A.
2001	6.02	107.96	5.03	26.68		
2002	440	1447	1186	662	19	235
2003	2951	3647	1849	1977	187	1246
2004	7779	9562	4028	3871	945	5044
2005	12922	17796	6509	7309	2339	14584
2006	15964	28339	13447	12033	6969	34187
2007	20138	52551	22852	20993	19597	94665
2008	33555	81097	38446	35126	36535	149686
2009	48179	69999	39158	42489	46788	187579
2010	51620	60297	42121	52550	75825	177163
2011	38058	56068	53990	47681	67105	61647
2012	32540	60693	57986	57764	51836	38827

Source: IRDA Annual Reports

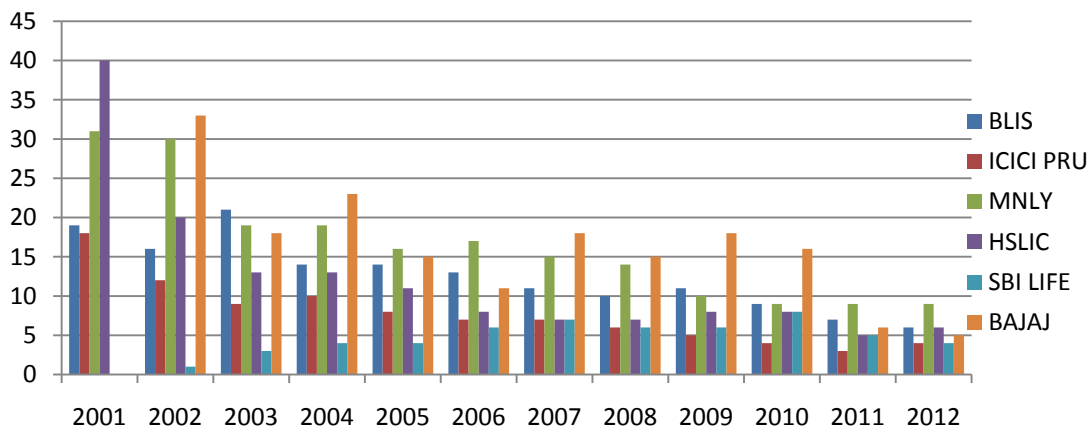
TABLE - 6

Commission paid in % of Premium Collection

Year	BSLI	ICICI PRU	MNYL	HSLIC	SBI LIFE	BABAJ A.
2001	19	18	31	40		
2002	16	12	30	20	1	33
2003	21	9	19	13	3	18
2004	14	10	19	13	4	23
2005	14	8	16	11	4	15
2006	13	7	17	8	6	11
2007	11	7	15	7	7	18
2008	10	6	14	7	6	15
2009	11	5	10	8	6	18
2010	9	4	9	8	8	16
2011	7	3	9	5	5	6
2012	6	4	9	6	4	5
Av. Com.	13	8	17	12	5	16

Source: IRDA Annual Reports

Graph - 5



Source: IRDA Annual Reports

From the above table and graph it is clear that all the companies are spending lot of amount as commission expenses. In the initial year they were spending more percentage of their premium as collection. Once they established in the market the percentage of commission on premium collection has been reducing. But the Commission expenses of most of the company have been increasing year by year. This has so happened as the premium collection of most of the companies has increased significant.

V. Conclusion

From the above analysis it can be concluded that the business of most of the company has been increasing significantly in the first ten years. In the last two years the business of few companies including Bajaj Allianz and ICICI Pru has reduced some extends. In the earlier years all companies were spending a higher percentage of their premium collection as commission expenses. But once their business settled, they have reduced the percentage of spending commission. The only company SBI Life is the exception to this. In the initial period the company was spending a low percentage of premium collection as commission expenses. But in the later year the company has increased the commission expenses percentage. The overall performances of all the private insurance companies are very satisfactory and they need to continue this pace to penetrate their market more and more.

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