
INDIAN LIFE INSURANCE BUSINESS ISSUES AND CHALLENGES

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ABSTRACT

Till 1999 the Indian insurance business was done by the government companies. So it was under the monopolistic market. Towards the end of 1999 India took the bold step of opening up the insurance sector. Within a short span of time the private life insurance companies captured 29.32 % of the market share. The Life Insurance penetration reached its peak at 4.6% in 2009 and Density also increased to the maximum of 55.7 US\$ in 2010. But there after there is a Continuous decline. One of the major factors for the decline is the reducing new business (-24.04%in 2012-13) and market share of the Private Life insurance companies. Many of the private companies even closed their offices. The reducing business of private insurance companies not only affected the companies but also the industry as a whole. Today the insurance industry is crippled with many problems and challenges the finding of the study revealed that thhe new business and the number of policy sold are reduced. The high operating cost is another problem. The other findings are shortage of funds, less number of individual agents, dissatisfied customers and wrong selling. Product diversification, appointing more individual agents, reducing expenses, customer delight and good service can revive the market.

Key words: insurance companies, , Insurance Density, Penetration, customer delight

Introduction

Insurance is a social device to reduce or eliminate risk of loss to life and property. A group of individuals transfer risk to another party in order to combine loss incurred. With India's growing exposure to global markets it is now being appreciated that the business of insurance with its unique features has a special place in the economy of our country. Together with banking services it adds about 7% of the GDP. Towards the end of 1999 India took the bold step of opening up the insurance sector. Within a short span of time the private life insurance companies captured 29.32 % of the market share. The Life Insurance penetration reached its peak at 4.6% in 2009 and Density also increased to the maximum of 55.7 US\$ in 2010. But there after there is a Continuous decline. Many of the private companies even closed their branches. The reducing new business (-24.04% in 2012-13) and market share of the Private Life insurance companies is a matter of concern not only for the private life insurance companies but also the industry as a whole. This study is an attempt to find out the issues and challenges faced by the industry and to suggest some remedial measures to overcome the crisis faced by industry..

Review of literature

H. Ansari in his articles emphasizes that liberalization was taken up with the aim to increase the insurance penetration as a percentage of GDP which is abysmally low as compared to many developing markets; besides giving customers a wide choice.

G. V. Rao in his article has opined that insurance is a mind game and exercising imagination to scale new heights in customer service is a must. Seamless service to customers, without fragmenting the company's convenience, increases the productivity and the innovative ways of doing the current work. Customers should be asked how they perceive their services. They can see what is wrong with the companies

Anthony Jacob in his article has mentioned that the Indian insurance industry is beginning to realize the importance of building excellent customer experience. Globally, many insurers have adopted a customer focus more than a product focus as superior service quality provides a competitive edge

G. Gopalkrishna in his article narrates that the basic policy of settling a claim of time is to give the client benefits as early as possible; and to serve the purpose for which they bought the insurance product. He says a repeat business from a deceased policyholder's family goes to prove the faith the people have in life insurance, sales efficiency of the agent and the alertness of the office.

Shiva Belavadi in his article has highlighted that in the entire insurance life cycle from prospecting through policy issuance and servicing a claim, the golden key is the deliverance of the promise. No moment of truth can be greater than a claim handled well. A core value, which a claim analyst must embrace, is 'empathy'. Without stepping into the shoes of the bereaved family it is very difficult to do justice in payment and also in

declination, what is most important is to be sensitive to the policyholders who indeed have first rights over the pool of funds they create.

Defining the Problem

After reviewing the above literature it is observed that there is no major study conducted on the various issues and challenges faced by the Insurance. A lot of economic changes have taken place after privatization. Now the business of life insurance industry is in a shaky ground. Hence the study is very much important.

Objectives of the Study

The following points are the important objectives of the study..

- a) To study the new business growth and the market share of life insurance companies.
- b) To study the awareness levels of the people of Mumbai about Life insurance products and the problems faced by them
- c) To study the problems faced by the Life insurance companies.
- d) To study the challenges faced by life insurance business
- e) To recommend the possible remedial measures to the life insurance companies.

Area of the Study

Mumbai is one of the most popular cities in the world, which was formerly known as Bombay. It is a commercial capital of India contributing 10% of factory employment, 33% income tax collection, 60 % of customs duty collection, 20% of central excise tax collection, 40% of Indian foreign trade and Rs. 40,000 crore in corporate tax. As of 2006 its population was 25 million with a relatively high standard of living. The overall literacy rate is 86%, which is more than the national average. it has a blend of white collared and blue collared people. Along with the rest of India, Mumbai has witnessed an economic boom since liberalization in 1991. The concept of insurance is more popular in Mumbai than any other part of India. Mumbai has all types of people with more purchasing power. Moreover, many of the private insurance companies have their head offices in Mumbai. Hence, it is appropriate to consider Mumbai as the area for survey.

Research Methodology

The study is descriptive and analytical. Hence, Survey method is followed for the study. Primary data as well as secondary data were used. Primary data were collected with the help of questionnaire with open ended and closed ended questions posed on insurance policyholders. Secondary data were collected from books, journals, magazines, newspapers, reports, government publications and websites.

a) Selection of Sample Size

b)

The policyholders in the city of Mumbai were treated as universe since the data about the universe is not certain. As per the census 2001 Mumbai is having a population of 12 million but only 20% of the insurable population (around 50%) is insured, which consists of children, multiple policyholders and multiple company policyholders. Therefore, considering this problem and the time available for the study a sample size of 150 policyholders is considered as ideal. Stratified random sampling technique was followed. On the basis of the population of Mumbai, the sample size of 150 policyholders are proportionately divided as 40 policyholders from South Mumbai, 40 policyholders from Eastern Suburb and 70 policyholders from Western Suburb were selected on random basis.

b) Secondary Data

References were taken from Journals, Periodicals, Magazines, Newspapers Articles, Research papers published by various authors, Books and other related publications, Published reports of insurance companies, IRDA and References taken from the Web sites.

c) Techniques of Analysis

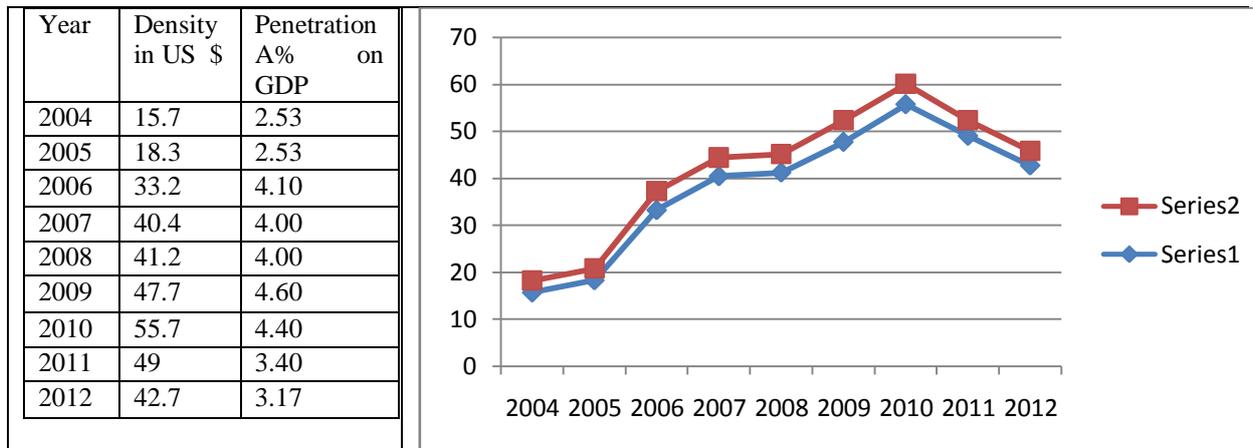
Analysis of data was done by using various statistical tools. The data collected from various sources were classified, tabulated and analyzed to arrive at appropriate conclusions and interpretations

Analysis of data

1. Life insurance Density and Penetration

One of the major reasons given at the time of privatization in 1999 was to increase the Insurance penetration and density. Insurance penetration is measured as a percentage of GDP. Insurance density is the per capita insurance expenditure in term of US\$. The collected data is tabulated and a chart is also prepared for the easy understanding.(Table-1). From the chart it is quite clear that both insurance density and penetration are going down steadily from 2009-2010. This is very significant indication about the state of the Indian insurance industry

Table-1)
Life insurance Density and Penetration



2. Reducing insurance business

To study the growth of life insurance business of private life insurance companies many indicators were studied. One of the indicators is the life insurance premium collection For this comparative study of life insurance premium collection of LIC and private life insurance companies are collected and tabulated (Table-1) under three parameters viz. first year premium, renewal premium and the total premium. When we compared the first year premium of both the LIC and private life insurance companies, both are showing the downward trend. The renewal premium of private life insurance companies shows a negative trend may be because of the discontinuation of policies. When we compared the total premium collection the trend of private life insurance companies are alarming. It is continuously declining i.e. from the growth rate of 25.09% in 2008-9 to the negative trend of -6.87 in 2012-13. The total premium also went down from its growth rate of 19.69% in 2009-10 to -0.05% in 2012-13.(Figure-1) This is a very bad sign to the industry

Table-2

Insurance business (Premium collection Rs in Crore)

Insurers	2008-9	2009-10	2010-11	2011-12	2012-13
First year premium					
LIC	53179.80 (11.36)	71521.90 (34.49)	87012.35 (21.66)	81862.25 (-5.92)	76611.50 (-6.41)
Private	34152.01 (1.28)	38372.01 (12.36)	39368.65 (2.60)	32079.92 (-18.55)	30749.58 (-4.15)
Total	87331. (-6.81)	109893.91 (25.84)	126381.00 (15)	113942.17 (-9.85)	107361.08 (-5.78)
Renewal premium					
LIC	104108.96 (15.94)	114555.41 (10.03)	116461.05 (1.66)	121027.03 (3.92)	132192.08 (9.23)
Private	30345.43 (70.05)	40997.93 (35.10)	48762.99 (18.94)	52102.91 (6.81)	47649.33 (-8.55)

Total	134454.39 (24.91)	155553.34 (15.69)	165222.99 (6.22)	173129.84 (4.77)	179841.41 (3.88)
Total Premium					
LIC	157288.04 (5.01)	186077.31 (18.30)	203473.40 (9.35)	202889.28 (0.29)	208803.53 (2.92)
Private	64497.90 (25.09)	279369.94 (23.06)	88131.60 (11.04)	8482.83 (-4.52)	78398.91 (-6.87)
Total	221785.94 (10.15)	265447.25 (19.69)	291604.99 (9.85)	287872.11 (-1.57)	287202.99 (-0.05)

Compiled from IRDA annual reports

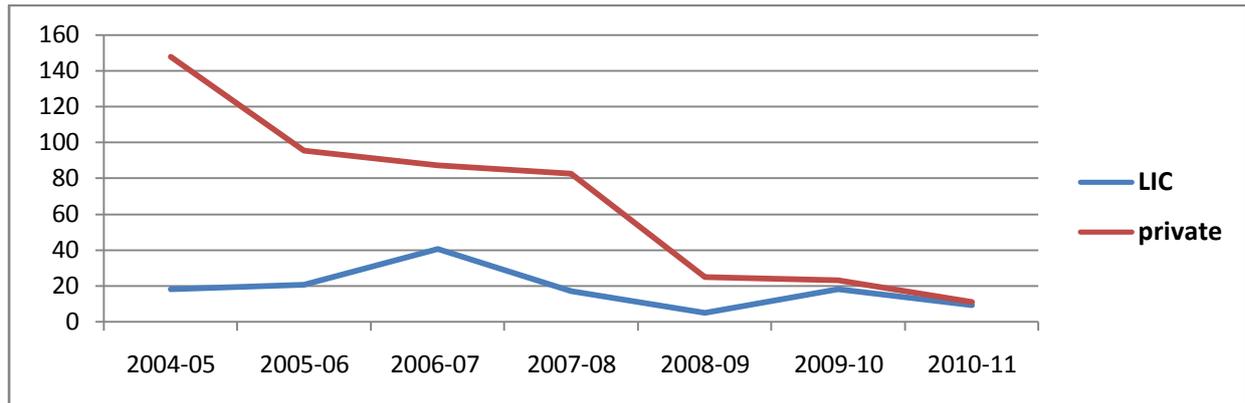


Figure -1 growth rate of insurance premium.

3. Reducing policy sales

When we compare the new life insurance policies issued by the companies we have learned that the sale of new life insurance policies issued by private life insurance companies shows a steep down ward trend (Table-3) i.e. from 150.11 lakh policies in 2008-9 it has gone down to just 74.05 lakh policies in 2012-13 which is 50% of the policies sold in 2008-9. To understand it better a bar chart is prepared (Figure-2).

Table-3

New insurance policies issued (in Lakh)

Insurer	2008-9	2009-10	2010-11	2011-12	2012-13
LIC	359.09 (-4.52)	388.63 (8.21)	370.38 (-4.70)	357.51 (-3.47)	367.82 (2.88)
Private	150.11 (13.19)	143.62 (-4.32)	111.14 (-22.61)	84.42 (-24.04)	74.05 (-12.28)
Total	509.20 (0.10)	532.25 (4.52)	481.52 (-9.53)	441.93 (-8.22)	441.87 (-0.01)

Compiled from IRDA annual reports

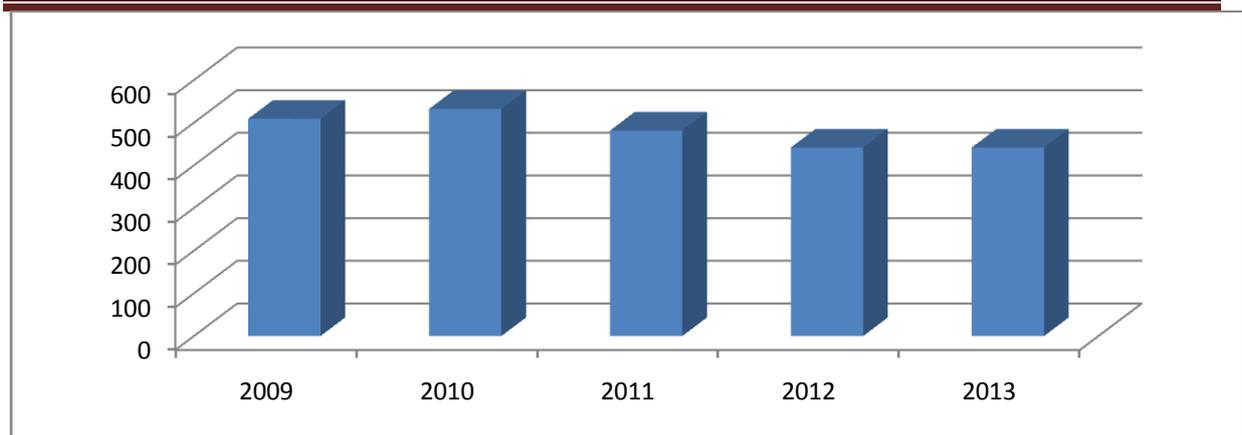


Figure:2 New insurance policies issued (in Lakhs)

4. Reduced Market share of private life insurers

One of the indicators of poor growth is the market share in terms of total premium percentage. The collected data is tabulated (Table-4).

.(Table-4).

Market share (Total Premium in Percentage)

Insurers	2008-9	2009-10	2010-11	2011-12	2012-13
LIC	70.92	70.10	69.78	70.68	72.70
Private	29.00	29.90	30.22	29.32	27.30
Total	100	100	100	100	100

Compiled from IRDA annual reports

The table shows that there is a marginal decrease of market share of private life insurance companies. This is not a good sign to the industry because this indicates that we are going backward.

5. Reducing Number of life insurance office

One of the major indicators of poor growth is the number of insurance offices in operation. When we compared the number of branches in operation of LIC and private life insurance companies we could make out that the number of branches of LIC is gradually increasing. On the contra the number of branches of private life insurers have gone down after 2009 may be because of poor sales. The collected data is tabulated and shown in Table -5. & in figure -3. The data reveals that almost 2000 offices of life insurance companies were closed between 2010 and 2013.

Table - 5

Number of life insurance offices

Insurers	2007	2008	2009	2010	2011	2012	2013
LIC	2301	2522	3030	3250	3371	3455	3526
Private	3072	6391	8785	8768	8175	7712	6759
Total	5373	8913	11815	12018	11546	11167	10285

Compiled from IRDA annual reports

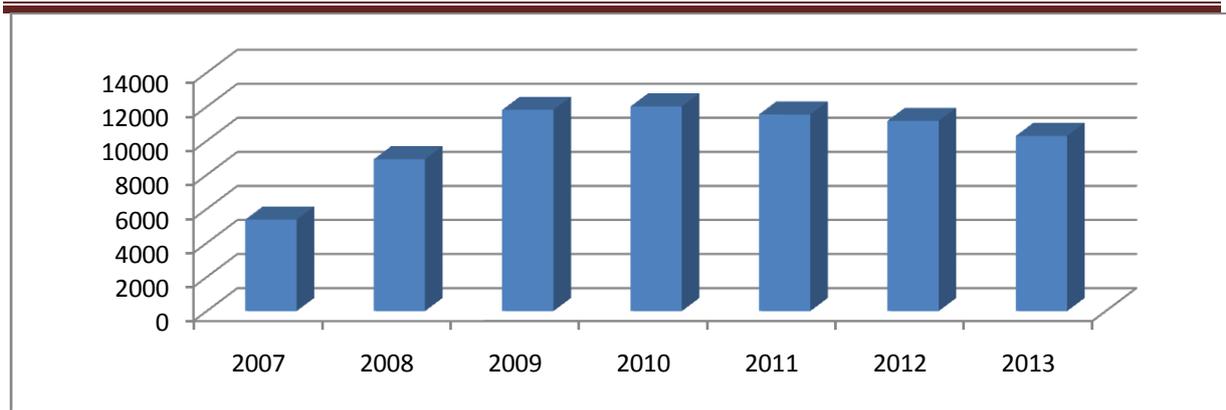


Figure-3: Number of life insurance offices

6. Equity infusion and movement in profits / (losses)

Now the government has increase FDI up to 51%, but still no major investments has come. The periods FY11 and FY12 had a consolidated positive movement in the reserves. However, this positive movement was majorly driven by lapse profits on linked policies issued earlier. Estimates by an October 2012 Goldman Sachs Global investment research report for just six companies show lapse profits of INR 31.89 billion for two years ending 2011-12. The quality of earnings can be affected by non recurring items such as profits from lapsed policies. The industry is at critical juncture wherein it has to identify the right models for long term viability. With economic growth expected to be slow and a weakening global economic outlook as well, insurers will have to contend themselves with another year of weak investment returns. Moreover with the challenges faced by insurance companies with the high cost of distribution and operations, it is important that life insurers find a sustainable model in the long term.

7. Increasing Expenditure

One of the problem faced by the private life insurance companies are high operating expenditure ratio .i.e. operating expenditure to total premium collected. The data collected is tabulated (Figure 4). The private life insurance companies are having almost 250% more expenditure than LIC. This affects their efficiency and increase premium.

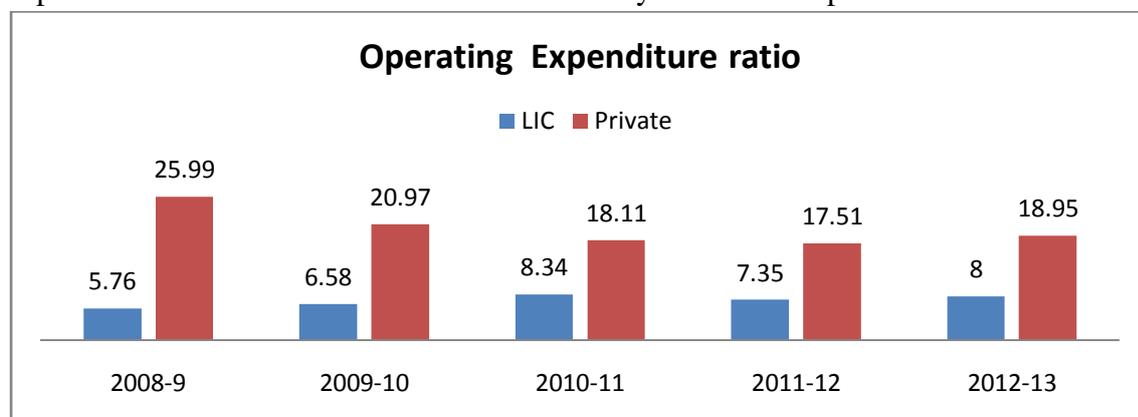


Figure-4: Operating Expenditure ratio

8. Increasing percentage of Problems faced by Customers

To understand the problems faced by the respondents, a specific question was asked. On the basis of the data, Table-6 is prepared

TABLE-6

Problems faced by Life Insurance Policyholders

Problems	LIC		Private Insurance companies		Total
	Frequency	Valid Percent	Frequency	Valid Percent	
Poor Service	32	50.00	32	50.00	64
Poor Claim settlement	25	43.85	32	56.15	57
Lack of Professionalism	12	35.29	22	64.71	34
Poor Returns	6	10.90	49	89.10	55
False promises	2	6.06	31	93.94	33
Total	77	31.68	166	68.32	243

The private sector insurance company's customers faced lot of problems. False promises top the list with 93.94% followed by poor returns (89.10%) and lack of professionalism (64.71%). For LIC the major problem is poor service (50%) followed by poor claim settlement (43.85%) and lack of professionalism (35.29%). This shows that majority of the customers of private insurance companies are disappointed with their services.

9. Decreasing Satisfaction Level of the Life Insurance Policyholders

People may buy a product from a particular company first time by accident and if they are satisfied with the quality of the product and services offered they will continue to buy from that particular company. Continuous purchase is a good indication of satisfaction. To find out the satisfaction level of respondents on the overall services of the life insurance companies from which they have purchased the policies, the respondents were asked to indicate their satisfaction levels in 4 categories, very good, good, average and poor.

TABLE 4.13

Satisfaction Level of the Life Insurance Policyholders

Company	Very good	Good	Average	poor	Total
LIC	15	15	2	-	32
ICICI	8	13	9	3	33
HDFC	13	8	8	2	31
BAJAJ	5	10	5	4	24

SBI	-	5	9	2	16
Birla	4	7	9	5	25
Tata AIG	6	12	7	1	26
Met Life	1	5	8	4	18
Max New York	2	-	6	5	13
ING	1	2	4	6	13
Reliance	-	-	9	4	13
Aviva	-	4	4	4	12
Others	3	14	19	8	44
Total	58	95	99	48	296

The response of the policyholders were tabulated and shown as table 4.13. Of the total 296 responses only 58 (19.59) % is very good and 95 (32.09)% were good put together 51.68%. The remaining 48.32% indicates that the services are average (33.45) % and 16.22% says it is poor. Overall LIC is having a good satisfaction level; while the HDFC is having good satisfaction level while Reliance is having the least.(figure 4.12)

CONCLUSIONS

From the analysis of the data of 150 Unit linked insurance policy holders, from Mumbai city and the published secondary data by the IRDA and the insurance companies the following conclusions were deduced:

- 1) The growth rate of regular premium collected by both LIC and private life insurance companies are affected. The private insurance company's premium collection is going down steadily.
- 2) LIC's first year premium was growing steadily, during the year 2007-08 and 2008-09 it was negative but afterwards it is having a healthy growth. On the contra the first year premium collection of the private life insurance companies, the growth was very healthy up to 2007-08 but after wards it is going down
- 3) Data shows that the number of policies issued by private companies is affected. In the year 2012-13, it is just 50% of the premium collected in the year 2008-9
- 4) One of the indicators of poor growth is the market share in terms of total premium percentage. The collected data shows that there is a marginal decrease of total insurance premium collected by private life insurance companies.
- 5) LIC over the years increased the branches gradually. But the private insurance companies increased the branches up to 2009 and then reduced it gradually. So the reduction in business has affected the number of branches.
- 6) One of the problem faced by the life insurance companies are high operating expenditure ratio to total premium collected. The private life insurance companies are having almost 250% more expenditure than LIC. This affects their efficiency and increase premium.
- 7) The world economic problem in 2008, the crash of Indian stock market, The tussle between SEBI and IRDA, The gross miss-selling of the product and the new

guidelines on ULIPs are major reasons for the setback in the reduction of business of private insurance companies.

- 8) Overall Term insurance policy is the well-known policy with 42 % (63 out of 150) ULIP came second with 27.33%(41 out of 150) Whole life policy came third with 25.33% (38 out of 150),
- 9) Purchase of policy is highly influenced by the income level of respondents. Respondents in the income group between 2-5 lakh purchased more policies than the other groups of income, less than 2lakhs and more than 5 lakh.
- 10) All policies were known to the respondents. Term insurance policy is the well known policy to the respondents (42%), which is followed by Unit Linked Insurance Plan (27.33%) and Whole Life Policy (25.33%)
- 11) Though all the Life Insurance policies were known to the Respondents through various sources, agents were the main source of information (47.58%) while advertisement finished second.
- 12) Overall LIC is having a good satisfaction level; while the HDFC is having good satisfaction level while Reliance is having the least in the private sector.
- 13) The private sector insurance company's customers faced lot of problems. False promises top the list with 93.94% followed by poor returns (89.10%) and lack of professionalism (64.71%). This shows that majority of the customers of private insurance companies are disappointed with their services.

From the analysis one can come to the conclusion that the policy holders of Mumbai are well informed. They are totally disappointed with the services of life insurance companies. This is a very bad news to the life insurance companies. The poor growth of private life insurance affected the growth of the industry. The insurance penetration and density also reduced in the last three years i.e. from 4.60 to 3.17 and from US\$-55.7 to US\$-42.7 respectively. This is not a good trend for the country which is having more uninsured population.

Suggestions

- In order to tap the growing segment of insurable population who is IT savvy, companies must immediately take the e-governance route and ensure that all your policies, both new and renewal, are available online. This will also enable them to have direct access and reduce dependence on brokers.
- Companies should ensure that claims are settled in the shortest possible time frame.
- Policyholders trust is of utmost importance and all our functioning should be geared up with this philosophy.
- There is also a need to have a balance between growth and profitability. Company's strategy in coming years should be guided accordingly.
- Other mode of distribution such as Banc assurance must be adopted in a big way. Out of the available 80,000 bank branches, less than 7000 are being used by PSU insurers and need to scale up Banc assurance immediately.

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- Majority of the life insurance policy holders come to know about the insurance products mainly through agents. So more individual agents to be appointed.
 - 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.
 - It is suggested that the private insurance companies must take steps to improve the brand image and their commitments to the customers. Also, some motivational steps could be taken for the recommendation made by the customers.
 - To increase insurance penetrations and density the life insurance companies are advised to develop simple products, multiple products and use of multiple distribution channels
 - Since insurance is a service industry, the success of this industry depends on the quality of service provided by the companies. Good service depends on the personnel in insurance companies. They must be competently trained in the products and should have the ability to deliver services of very high standards.
 - A customer is really satisfied when he/she not only comes back, (for more) but brings some others with them (to be a new customer). Good Customer service, satisfied and loyal customers together make a competitive edge to insurance companies.
 - In Insurance sector the rural market constitutes 70% of the insurable population. Recent studies have established that disposable income of farmers has risen. The NCAER study “Very Rich White book: a study of Super –Affluent Indian Consumers” shows that around 15% of mega rich are in rural India. Since agents are still the primary intermediaries in the Indian insurance scenario, emphasis should be laid on their training, explaining their role to them, enabling them to enhance their capabilities in dealing with rural customers.
 - The new regulatory environment has made ULIPs extremely customer- friendly and transparent. Customers benefit from the trine of life insurance, market-linked investment returns and tax benefits. The greatest appeal lies in its potential as an extremely effective tool for financial life-cycle planning, incorporating the best features of other competing platforms in the savings plan
 - Product diversification is the key for the revival of the private insurance business.
 - Efforts to be taken to reduce the operating expenses,
 - Customer centric programs to be organized to encourage customers to go for private life insurance products. Customer delight and good service can revive the market.

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