



## IMPACT OF LIBERALIZATION ON LIFE INSURANCE INDUSTRY IN INDIA

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### **Abstract –**

*The Indian life insurance has gone through many changes. A major cause of upliftment is acceptance and adoption of liberalization, privatization and globalization (LPG) in 1991. The process of opening up the insurance sector was initiated against the background of economic reform in 1991. For this purpose Malhotra committee was formed in 1993 who submitted their report in 1994 and the legislation of IRDA Bill, passed in 1999. IRDA opened up insurance sector for private companies and they operated from 2001. India is fifth largest globally emerging insurance market. Insurance sector in India have potential to grow with growing interest towards insurance among people, innovative product, improved technology and distribution channel.*

**Keywords –** Life Insurance, Liberalization

### **Introduction –**

Life Insurance sector in India go through massive changes after 1991. In 1991, Indian economy had taken macro-economic and structural reforms for stabilization in economy and to correct balance of payment position. These economic and structural reforms make changes in every fields of Indian economy. These macroeconomic changes popularly known as ‘LPG’ that is Liberalization, Privatization and Globalization.

Privatization in life insurance sector allows private and foreign player in Indian life insurance market. From 2000 IRDA allowed private players to invest in life insurance sector with FDI 26%. Intention behind privatization is to protect the interest of policyholder and to regulate, promote and ensure growth of insurance industry. At the same time nearly 80% population in India was without coverage of life insurance till 2000. This paper overview impact of

liberalization and privatization on Indian life insurance sector.

### **Objective –**

- 1) To study growth of Life Insurance Industry
- 2) To study impact of privatization on Insurance Penetration and Insurance Density

### **Hypothesis**

Liberalization enhances the growth of Life Insurance Sector

### **Research Methodology**

Research methodology used for this research paper is analytical and descriptive. Research is depending on secondary data. Data was collected from multiple sources such as book, journals, research articles, professional magazines, annual reports, handbook documents of IRDA and LIC some data has been collected from website of LIC, government of India as well as IRDA.

### **Life Insurance Sector In India**

Life insurance refers as a device to spread the loss caused by a specific risk over a number of people who agree to

ensure themselves against risk. Life insurance in India has deep rooted history find in writing of Manu(Manusmirithi), Yagnavalkya (Dharmashastra) and Kautilya

(Arthashastra). Life insurance sector in India complete full circle of market competition. Milestone in Indian Life Insurance sector is as follows

1818	“Oriental Life Insurance Company” First insurance company in India by European.
1870	“Bombay Mutual Life Assurance Company’ First Indian Insurance company fully owned by Indians
1912	First Life Insurance Act to regulate insurance business
1938	Reframe Life Insurance Act for protecting interest of insuring public
1956	Nationalization of Life Insurance business with LIC act passed in Parliament
1993	Setting up Malhotra Committee
1994	Recommendation of Malhotra Committee
1995	Setting up Mukharjee Committee (Committee report not publish)
1996	Setting up (interim) Insurance Regulatory Authority (IRA)
1998	The standing committee headed by MuraliDeora decides that foreign equity in private insurance should be limited to 26%. The IRA was renamed the Insurance Regulatory and Development Authority (IRDA Act)
1999	Cabinet pass IRDA act
2000	President gives assent to the IRDA act.
Aug 2000	IRDA opens market for private player

### Life Insurance Companies In India

One of the parameters to measure the growth of life insurance sector is number of registered companies as insurance at IRDA. Total 24 life insurance companies are working in India. Out of this 23 are private life insurance companies and only 1 public life insurance company. The growth of

### Growth Of Life Insurance Companies

life insurance branches is tremendous as giants private companies comes with joint ventures between public / private sector banks and national / international insurance financial companies. Private companies come with international experience as they entered in market they capture untapped market with new branches.

Table 1.1

Year	No of Companies	Growth of Companies in Percentage
1999-2000	1	-
2000-2001	5	80%
2001-2002	12	58.33%
2002-2003	13	7.69%
2003-2004	13	7.69%
2004-2005	14	7.14%
2005-2006	15	6.66%
2006-2007	16	6.25%
2007-2008	18	11.11%

2008-2009	22	18.18%
2009-2010	23	4.34%
2010-2011	23	4.34%
2011-2012	24	0.00%
2012-2013	24	0.00%
2013-2014	24	0.00%
2014-2015	24	0.00%
2015-2016	24	0.00%
2016-2017	24	0.00%
2017-2018	24	0.00%
2018-2019	24	0.00%
2019-2020	24	0.00%

Source – Annual Report of IRDA.

Above table shows growth of Life Insurance Companies in India. LIC have monopoly upto 2000. In 2001 there are 5 private life insurance companies in market. Growth rate is 80%. After that growth rate declines continuously. Growth of life insurance companies are constant from 2011-12. There are 24 life insurance companies from 2011-12 to till date and growth rate become 0. Now the growth of new life insurance companies are stagnated.

### **Insurance Penetration And Insurance Density**

Insurance penetration and Insurance density are good indicator of growth of life insurance business in economy. Insurance penetration is calculated by percentage of insurance premium to GDP shown in percentage. Insurance density is calculated by ratio of premium to population (per capita premium). Insurance density measured in USD.

**Table 1.2, Life Insurance Penetration And Life Insurance Density In India**

<b>Year</b>	<b>Life Insurance Penetration (in %)</b>	<b>Life Insurance Density (in USD)</b>
2001-2002	2.15	9.1
2002-2003	2.59	11.7
2003-2004	2.26	12.9
2004-2005	2.53	15.7
2005-2006	2.53	18.3
2006-2007	4.10	33.2
2007-2008	4.00	40.4
2008-2009	4.00	41.2
2009-2010	4.60	47.7
2010-2011	4.40	55.7
2011-2012	3.40	49.0
2012-2013	3.17	42.7
2013-2014	3.10	41.0
2014-2015	2.60	44.0
2015-2016	2.72	43.2
2016-2017	2.72	46.5
2017-2018	2.76	55.0
2018-2019		
2019-2020		

Source – Annual Report of IRDA and Handbook of IRDA.

Above table 1.2 shows life insurance penetration and life insurance density in India. In 2001-02 life insurance penetration is only 2.15% as life insurance companies increase in India life insurance penetration not increase in same ratio. After 2006-07 life insurance penetration double and again decline after 2011-12. Life insurance density that is ratio of premium to

population increase continuously after 2001-02 it reaches upto 55.7 USD in 2010-11 but after that it slightly decline and again increase in 2017 – 18

#### **Total Premium Collection**

Total premium collection by public and private life insurance company is another indicator to check growth of life insurance business in Indian economy

**Table 1.3**

Year	Total Premium (in Crore )	Growth Rate
2000-2001	34898.47	-
2001-2002	50094.46	43.54
2002-2003	56748.55	13.28
2003-2004	66654.75	17.46
2004-2005	82855.80	24.31
2005-2006	105876.76	27.78
2006-2007	156076.84	47.41
2007-2008	201351.41	29.01
2008-2009	221785.47	10.15
2009-2010	265447.25	19.69
2010-2011	291639.64	9.87
2011-2012	287072.11	-1.57
2012-2013	287072.49	0.00
2013-2014	314283.49	9.48
2014-2015	328102.01	4.40
2015-2016	366943.23	11.84
2016-2017	418476.61	14.04
2017-2018	458809.44	9.64
2018-2019		

Source – Annual Report of IRDA

Table 1.3 shows growth of life insurance premium collection by public and private life insurance companies. In 2000-01 total premium is 34898.47 crore which increased upto crore in 2018-19. Growth rate seems to vary. In 2001-02 growth rate of total premium collection is 43.54% but after that growth rate declines and increased in 2006-07 which is highest growth rate in study period. In 2011-12 total premium growth rate shows negative values. From 2015-16 growth rate is range between 9 to 14%.

#### **New Business Of Life Insurance Sector**

New business occupies important place in overall growth of life insurance business. New business is most important indicator for measuring performance of life insurance sector. Companies in life insurance sector grow it definitely made growth in new business in terms of life insurance policies. New business indicates business done in particular year.

Table 1.4

Year	No of Policies of LIC	AGR	No of Policies of Private Insurance Companies	AGR	Total No of Policies	AGR
	(in Lacs)		(in Lacs)		(in Lacs)	
2001-02	N.A		N.A		N.A	
2002-03	245.46		8.25		253.71	
2003-04	269.68	9.87	16.59	101.09	286.27	12.83
2004-05	239.78	-11.09	22.33	34.6	262.11	-8.44
2005-06	315.91	31.75	38.71	73.35	354.62	35.29
2006-07	382.29	21.01	79.22	104.65	461.51	30.14
2007-08	376.13	-1.61	132.62	67.41	508.75	10.24
2008-09	359.13	-4.52	150.11	13.19	509.24	0.1
2009-10	388.63	8.21	143.62	-4.32	532.25	4.52
2010-11	370.38	-4.7	111.14	-22.62	481.52	-9.53
2011-12	357.51	-3.47	84.42	-24.04	441.93	-8.22
2012-13	367.82	2.88	74.05	-12.28	441.87	-0.01
2013-14	345.12	-6.17	63.6	-14.11	408.72	-7.5
2014-15	201.71	-41.55	57.37	-9.8	259.8	-36.61
2015-16	205.47	1.86	61.92	7.93	267.39	3.21
2016-17	201.32	-2.02	63.24	2.13	264.56	-1.06
2017-18	213.38	5.99	68.59	8.46	281.97	6.58
2018-19	214.04	0.31	72.44	5.61	286.48	1.6
Mean	297.28		73.42		370.7	
SD	72.64		40.44		102.52	
CV	24.43		55.07		27.66	

Source – Compiled from annual report of IRDA and LIC.

N.A – Non availability of data.

Table 1.4 shows new policies issued by LIC and private player and total of life insurance industry. New policies issued in 2002-03 were 245.46 lakhs and in 2018-19 LIC issued 214.04 lakh by LIC. There is no significant change in new policies issued by LIC. Growth rate some time shows negative values. On the other hand private player issued 8.25 lakhs policies in 2002-03 after that upto 2008 -09 private players were issued 150.11 lakhs policies. Private player continually expand their business upto 2008-09. From 2008-09 new policies issued by private players started to decline and reached at 72.44 lakhs policies in 2018-19. LIC issued more

than 3 fold policies than private player. Total policies issued by life insurance industry was 253.11 lakhs. Life insurance industry experience lots of ups and downs in issuing new policies and premium collection and finally in 2018-19 industry issued 286.48 policies. Mean of new policies issued by LIC and private player is respectively 297.28 and 73.42. Standard deviation of LIC and private player is respectively 72.64 and 40.44. Standard deviation for industry total is 102.52. Coefficient of variation of LIC and private player suggest private player have more variation than LIC in issuing new policies.

**Market Share**

Market share is one of the parameter for measuring performance of life insurance industry. Market share shows market captured in form of total premium

underwritten by insurance player. Market share showed in percentage of total premium. Following table shows market share of public and private sector life insurance player.

**Table 1.5**

Year	Market Share of LIC	Market Share of Private Companies	Total
2001-02	99.46	0.54	100
2002-03	97.19	2.81	100
2003-04	95.29	4.71	100
2004-05	90.67	9.33	100
2005-06	85.75	14.25	100
2006-07	81.90	18.10	100
2007-08	74.39	25.61	100
2008-09	70.92	29.08	100
2009-10	70.10	29.90	100
2010-11	69.78	30.22	100
2011-12	70.68	29.32	100
2012-13	72.70	27.30	100
2013-14	75.39	24.61	100
2014-15	73.05	26.95	100
2015-16	72.61	27.39	100
2016-17	71.81	28.19	100
2017-18	69.36	30.64	100
2018-19	66.42	33.58	100

Source – Compiled various annual reports of LIC and IRDA from 2000 to 2019.

Table shows market share of LIC and private sector life insurance companies. It has been revealed that market share of LIC decline year by year with entry of private player. Total market share of LIC is 99.46% in 2001-02 decrease upto 66.42% in 2018-19. Contrary to this market share of private player has continuously raising from 0.54% in 2001-02 to 33.58% in 2018-19.

**Conclusion:-**

- 1) Liberalization impacts insurance sector heavily as private companies enter in life insurance market.
- 2) Upto 2000 there is monopoly of Life Insurance Corporation of India but now there are 24 life insurance companies working in Indian market. 23 among them are private and LIC of India is public owned company.
- 3) Life insurance penetration increases after 2001-02. In 2009-2010 it

reaches it's highest level but after that life insurance penetration decline.

- 4) Liberalization of insurance sector having positive impact on life insurance density as it increases after liberalization.
- 5) Total premium collection increases after liberalization. Growth rate seems to decline. From 2015-16 growth rate of total premium collection not extending more than 14%.
- 6) New premium collections of private insurance company increase after they enter in market. After 2010 – 11 new premium collection of private insurance companies decline. New premium collection of LIC of India also decline after 2013-14.
- 7) Monopoly of LIC breaks after 2000. As private companies enter with joint venture of foreign companies

market share of LIC of India continuously decline. In 2018-19 LIC have 66.42% market share of life insurance market in India. when we compare market share of each private company with LIC, it seems LIC of India have dominating position.

#### **Recommendations –**

- 1) Life insurance companies must have to concentrate rural untapped area for insuring people. Insurance companies must have to focus on open new branches in rural area.
- 2) All insurance companies look after for new business. They have to design new policies according to requirement of people.

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