

A Study of performance evaluation of public sector and private life insurance industry in India since liberalisation.

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ABSTRACT

The process of Liberalisation, Privatisation and Globalization has opened up the Indian Economy for foreign as well as private players. In the light of the economic process, Insurance Sector has been opened up for foreign as well as private players. In the era of competition, performance evaluation has become significant in order to survive for a long period of time. It provides a base for checking and controlling the weak areas of the activity and also provides a ground for growth , expansion and diversification. The present study throws light on the differences in the performances of public sector life insurer LIC and the private life insurers in the country.

Key Words: Performance evaluation, Life Insurance Industry, Private players

INTRODUCTION

Life insurance industry is an important and integral component of macro economy and has emerged as a dominant institutional player in the financial market impacting the health of economy through its multi-dimensional role in savings and capital market. While the primary role of a life insurance company is to provide insurance coverage for managing personal financial risks, it plays a very crucial role in promoting savings by selling a wide range of products and also actively contributes

in promoting and sustaining the capital market of a country. Insurance serves a number of valuable Economic functions that are largely distinct from other types of financial intermediaries. Insurance facilitates to maintain the large size commercial and industrial organizations. The Growth of the international trade of the country has been greatly helped by shifting of risk to Insurance Company. Insurance has been promoting social schemes through investments in Infrastructure and social sector, which includes projects/schemes for generation and transmission of power, housing sector, water supply and sewerage projects/schemes, and development of Roads, Bridges & Road Transport. Apart from economic function it is a major instrument which Provides social security and promotes individual welfare. Social security is an essential requirement of social justice. Insurance is the critical input for a more secure present as well as Future of individuals

However in common parlance Insurance may be described as a social device to reduce or eliminate risk of loss to life and property. Insurance is a collective bearing of risk and is a Financial device to spread the risks and losses of few people among a large number of people , as People prefer small fixed liability instead of big uncertain and changing liability. Insurance provides wide range of services like Risk Cover , Tax Protection , Loans , Retirement Planning and Educational Needs

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The following Time line of Insurance provides us with birds eye view of various changes that took place in Insurance Industry

1818 British introduced the life insurance to India with the establishment of the Oriental Life Insurance Company in Calcutta.

1850 Non life insurance started with Triton Insurance Company.

1870 Bombay Mutual Life Assurance Society is the first India owned life insurer.

1912 The Indian Life Assurance Company Act enacted to regulate the life insurance business.

1938 The Insurance Act was enacted.

1956 Nationalization took place. Government took over 245 Indian and foreign insurers and provident societies and Life insurance Corporation was set up.

1972 Non-life business nationalized, General Insurance Corporation (GIC) came into being.

1993 Malhotra committee was constituted under the chairmanship of former RBI chief R. N. Malhotra to draw a blue print for insurance sector reforms.

1994 Malhotra committee recommended reentry of private players.

1997 IRDA (Insurance Regulatory and Development Authority) was set up as a regulator of the insurance market in India.

2000 IRDA started giving license to private insurers. ICICI Prudential, HDFC and Max NewYork Life Insurance (now MAX LIFE) were first private players to sell insurance policies.

Today there are 24 Companies operating in India including LIC

From the above details, it clearly indicates. LIC was the only dominant company enjoying monopoly and has done a lot towards building awareness and developing life insurance business in India. However it lagged behind International developments and standards. All this led the government of India to rethink about the structure of the life insurance industry and in this context, various committees such as the Malhotra committee(1994), Mukherjee committee(1995), etc were appointed. Going by the recommendations of these committees, The Insurance Regulatory and Development Authority Act of 1999 ended the monopoly of LIC and finally laid down a road map for privatization of the life insurance sector. Nevertheless the Year 2000 was a defining moment in the history of Indian Insurance because

for the first Time the sector was opened up to private sector after independence due to Malhotra Committee(1994) recommendations. This allowed private sector to enter insurance industry with a minimum paid up capital of Rs.100crores.Foreign insurance was allowed to enter by floating an Indian company preferably a joint venture with Indian partners. Steps were initiated to set up a strong and effective insurance regulatory in the form of a statutory autonomous board on the lines of SEBI.

The insurance sector has come a long way today. It has completed a decade of liberalisation .A glance at Indian economy throws light on important aspect showing about still 80 per cent of total population of India is without life insurance cover. This is also an indicator that growth potential for the insurance sector is immense in India. With largest number of life insurance policies in force, its business is growing at the rate of 15-20 per cent annually. Together with banking services, it adds about 7 per cent to the country's GDP. Gross premium collection in India is nearly 2 per cent of its GDP and funds available with LIC for investments are 8 per cent of GDP of India. Due to opening up of insurance industry since 2000, 24 companies have started their business in the life segment today posing stiff competition among themselves as well the public sector giant LIC .In the era of competition ,performance evaluation has become significant in order to survive for a long period of time. It provides a base for checking and controlling the weak areas of the activity and also provides a ground for growth expansion and diversification. In short, performance evaluation refers to measuring performance against expectations .

Objectives of the Study:

- 1) To Study the differences in the performance between public and private Life Insurance Companies .
- 2) To Analyze the Trends of public and private Life Insurance Companies since liberalisation

Hypothesis:

Ha: There is a significant differences in the performances of public and private life insurers in India

Research Methodology :

Type of Research	: Historical Analytical / Descriptive
Data Collection	: Secondary Data collected from IRDA Journals, Insurance Magazines, Research Articles and Papers.
	Time period of study is 6 years from 2001-2007
Statistical Tools	: Simple Tabulation.

DATA ANALYSIS AND DISCUSSION

Number of companies registered:

In the public sector, we have the giant life insurer Life Insurance Corporation Of India(LIC)

Private sector comprises of total 23 companies as of 2012 data from IRDA annual reports. For the purpose of the study only selected companies which were registered under the study period are taken into consideration

TABLE NO. 1: LIFE INSURERS

Sl No	Registration no	Date of Registration	Name of the Company
1	512	completed its 50	Life Insurance Corporation of India
2	101	23.10.2000	HDFC Standard Life Insurance Company Ltd.
3	104	15.11.2000	Max New York Life Insurance Company Ltd.(Max Life now)
4	105	24.11.2000	ICICI Prudential Life Insurance Company Ltd.
5	107	10.1.2001	Kotak Mahindra Old Mutual Life Insurance Ltd.
6	109	31.1.2001	Birla Sun Life Insurance Company Ltd.
7	110	12.2.2001	Tata AIG Life Insurance Company Ltd.
8	111	30.3.2001	SBI Life Insurance Company Ltd.
9	114	2.8.2001	ING Vysya Life Insurance Company Private Ltd.
10	116	3.8.2001	Bajaj Allianz Life Insurance Company Ltd. .
11	117	6.8.2001	Metlife India Insurance Company Ltd.
12	121	3.1.2002	AMP Sanmar Insurance Company Ltd.(now it is Reliance Life Insurance Company Ltd.)
13	122	14.5.2002	Aviva Life Insurance Company India Private Ltd.
14	127	6.2.2004	Sahara India Insurance Company Ltd.
15	128	17.11.2005	Shriram Life Insurance Company Ltd.
16	130	14.07.2006	Bharti AXA Life Insurance Company Ltd.
17	133	4.9.2007	Future General India Life Insurance Company Ltd.
18	135	19.12.2007	IDBI Fortis Life Insurance Company Ltd.
19	136	16.01.2011	Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd.
20	138	27.6.2008	Aegon Religare Life Insurance Company Ltd.
21	140	27.6.2008	DLF Pramerica Life Insurance Company Limited
22	142	09.07.2010	Star Union Dai-chi Life Insurance Co Ltd.
23	143	5/11/2009	India First Life Insurance Company Ltd.
24	147	10.05.2011	Edelweiss Tokyo Life Insurance Co. Ltd.

Market share of life insurers (LIC vs. Private Sector)

Market share of all life insurance is contained in table no. 2. Market share is determined in terms of premium received by the companies. Premium is further divided as first year premium, renewal premium and total premium

It can be seen that in terms of first year premium, LIC has lost its share to private players up to 2005-06, but it increased in last year under study. LIC's share reduced from 98.65% in 2001-02 to 94.30% in 2002-03. It further fell to 78.78% in the year 2004-05. It highlights the emergence of private players in India but strength of LIC as a life insurer. Figures of renewal premium differ from first year premium figure. In it, LIC has lost some share to private sector. Its share just reduced from 99.99 in 2001-02 to 89.03% in the year 2006-07. It confirms that private sector is gaining share in life insurance market in India.

TABLE NO. 2 MARKET SHARE OF LIFE INSURERS (in %)

	Insurers	2001-02	2002-03	2003-04	2004- 05	2005-06	2006-07
First Year Premium	LIC	98.65	94.30	87.44	78.78	73.52	74.35
	Private sector	1.35	5.70	12.56	21.22	26.48	25.65
	Total	100.00	100.00	100.00	100.00	100.00	100.00
Renewal Premium	LIC	99.99	99.60	98.55	96.18	92.82	89.03
	Private sector	0.01	0.40	1.45	3.82	7.18	10.97
	Total	100.00	100.00	100.00	100.00	100.00	100.00

SOURCE: COMPILED FROM ANNUAL REPORTS, IRDA, (VARIOUS YEARS)

Equity Share Capital of Insurance Companies

This table no 3, informs about the equity capital of life insurers in India. It further highlights the population of FDI in their capital. Analysis is done in decreasing order of the equity in the year 2003-2004.

Among private sector firms, ICICI prudential is operating with Rs.3112 Crore. It is noted that, its capital increased from 190 Cr in 2001-2002 to such an amount. After ICICI Prudential, HDFC Life holds Rs. 800 Cr as capital in the year 2006-07. Apart from this Birla Sunlife's capital rose from Rs.150 Cr to Rs. 671.50 Cr in 2006-07. ING Vysya life comes next in the list , whose capital increased from Rs 110 Cr to 690 Cr in the year 2006-07.

It is interesting to note that LIC, the biggest life insure in India, operates with just Rs. 5 Cr capital.

TABLE 3: EQUITY SHARE CAPITAL OF INSURANCE COMPANIES
(Rs Crore)

Name of the insurer	2001- 02	2002-03	2003-04	2004-05	2005-06	2006-07
HDFC Standard Life Insurance Co. Ltd	168 .00	218	255.5	320	619.27	800.71
ICICI-Prudential Life Insurance Co. Ltd	190	425	675	925	1185	3112.3
Max New York Life Insurance Co. Ltd	250	255	346.08	466.08	557.43	732.43
Kotak mah Life Insurance Co. Ltd	101	131.3	151.26	211.76	244.37	330.35
Birla Sun Life Insurance Co. Ltd	150	180	290	350	460	671.5
TATA-AIG Life Insurance Co. Ltd	185	185	231	321	447	547
SBI Life Insurance Co. Ltd	125	125	175	350	425	500
ING Vysya Life Insurance Co. Ltd	110	170	245	325	490	690
MetLife India Life Insurance Co. Ltd	110	110	160	235	235	530

Allianz Bajaj Life Insurance Co. Ltd	150	150.03	150.07	150.07	150.23	150.37
Reliance Life Insurance Co. Ltd	125	125	160	217.1	331	664
AVIVA Life Insurance Co. Ltd		154.8	242.8	319.8	458.7	758.2
Sahara India Life Insurance Co. Ltd			157	157	156.62	156.5
Shriram Life					125	125
Insurance Co. Ltd						0
Bharti AXA Life Insurance Co. Ltd					1.1	150
Life Insurance Corporation of India	5	5	5	5	5	5

SOURCE: COMPILED FROM ANNUAL REPORTS, IRDA, (VARIOUS YEARS)

Premium Earned by Insurance Companies

Table no 4 produces the information on the premium earned by all the insurance companies operating in India.

Analysis of the data in the table suggest that in the year 2001-02 LIC's share in total premium earned is 99.46 %, but it declined to 95.29 % in the year 2003-04. It declined further to 90.17%. , now it is 82 %. ICICI Prudential is the leading private insurance company in terms of premium earned. Its collection increased from Rs 116.37 Cr to Rs 7912.99 Cr in 2006-07. Premium earned by Birla Sun life was Rs 1776.71 Cr, which had increased from Rs 28.26 Cr in the year 2001-02. It stayed at Rs 915.47 Cr in 2004-05. The premium collection of HDFC Standard also shows rising trend, it stayed at Rs 33.46 Cr in 2001-02 but rose to Rs 297.76 Cr in 2003-04 and to Rs 686.63 Cr in year 2004-05. it is 2855.87 Cr in 2006-07

The premium earned by TATA AIG, Max New York life varies between Rs.200 Cr to Rs 250 Cr in the year 2003-04 and between Rs 1200 Cr and Rs 1500 Cr in last year under study.

Private insurance companies like AVIVA, Sahara, AXA, Shriram and Met life earned lesser premium other companies.

LIC emerged as an obvious leader in attracting huge premium for issued life policies. For the year 2003-04, its premium amount stood at Rest 63167.60 Cr. It has elevated from Rs 49821.91 Cr, the premium amount of the year 2001-02. In 2004-05, LIC earned a huge premium of Rs 70901.90 Cr in year 2004-05 and Rs 127822.84 in 2006-07.

TABLE NO.4: PREMIUM EARNED BY INSURANCE COMPANIES (IN CRORE)

Name of the insurer	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
HDFC Standard Life Insurance	2855.87	1569.91	686.63	297.76	148.82	33.46
ICICI-Prudential Life Insurance	7912.99	4261.05	2363.82	989.28	417.62	116.37
Max New York Life Insurance	1500.28	788.13	413.43	215.25	96.59	38.95
Kotak mah Life Insurance Co.	971.51	621.85	466.16	150.72	40.32	7.58
Birla Sun Life Insurance Co.	1776.71	1259.68	915.47	537.54	143.92	28.26
TATA-AIG Life Insurance Co.	1367.18	880.19	497.04	253.53	71.77	21.14
SBI Life Insurance Co. Ltd.	2928.49	1075.32	601.18	225.67	72.39	14.68
ING Vysya Life Insurance Co.	707.2	425.38	338.86	88.51	21.16	4.19
MetLife India Insurance Co.	492.71	205.99	81.53	28.73	7.91	0.48
Allianz Bajaj Life Insurance Co.	5310	3133.58	1001.68	220.8	69.17	7.14
Reliance Life Insurance Co.	1004.66	224.21	106.55	31.06	6.47	0.28
AVIVA Life Insurance Co. Ltd	1147.23	600.27	253.42	81.5	13.47	
Sahara India Life Insurance Co. Ltd	51	27.66	1.74	----		
Shriram Life Insurance Co. Ltd	185.15	10.33	----	----		
Bharti AXA Life Insurance Co.	7.78	----	----	---	---	---
Sub Total	28218.75	15083.54	7727.51	3120.35	1119.61	272.53
Life Insurance Corporation of	127822.84	90792.22	75127.29	63533.43	54628.49	49821.9
TOTAL	156041.59	105875.7	82854.8	66653.75	55747.55	50094.4

Note: Premium Figures do not include Reinsurance ceded / accepted

SOURCE: COMPILED FROM ANNUAL REPORTS, IRDA, (VARIOUS YEARS)

Profit And Loss of Life Insurers

Data pertaining to profit and loss of insurance companies, both public and private, is tabulated in Table No. 5 The figure of loss suffered by the companies is taken in brackets.

It is amazing to note that all private companies suffered losses ranging from Rs 29 Cr to Rs 1600 Cr in the year 2006-07. from available data, Only LIC earned profits, which was Rs 551.81 Cr in 2003-04,

it further enlarged to Rs 708.37 Cr in next year. In the year 2006-07, it was Rs 732.62. Met life and Reliance faced losses in 2004-05 and 2003-04 but enjoyed profits in 2002- 03. HDFC Standard is the only company to reduce its loss in 2003-04, which again increased to Rs 89.73 Cr in 2004-05. Its loss has crossed a mark of Rs 442 Cr in the last year under study.

Profit of LIC reduced from Rs 821.79 Cr in 2001-02 to Rs 496.97 Cr in 2002-03, but it enlarged to Rs 732.62 Cr in the last year under study.

TABLE NO. 5: PROFIT AND (LOSS) OF LIFE INSURERS (Rs Crore)

Name of the insurer	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
HDFC Standard Life Insurance Co. Ltd	-442.14	-316.58	-89.73	-23.44	-48.2	-25.11
ICICI-Prudential Life Insurance Co. Ltd.	-1601.7	-952.79	-211.82	-221.58	-147.18	-105.09
Max New York Life Insurance Co. Ltd.	-452.81	-392.34	-99.66	-232.76	4.82	11.38
Kotak Life Insurance Co. Ltd.	-266.81	-155.41	-18.69	-92.42	0	0
Birla Sun Life Insurance Co. Ltd.	-444.6	-304.86	-60.61	-77.74	-60.96	-36.1
TATA-AIG Life Insurance Co. Ltd.	-305.67	-233.31	-49.59	-58.09	-42.89	-25.24
SBI Life Insurance Co. Ltd.	-29.66	-33.49	-11.5	-16.41	-7.49	-0.29
ING Vysya Life Insurance Co. Ltd.	-527.13	-349.56	-93.74	-62.99	-37.86	-30.94
MetLife India Insurance Co. Ltd.	-165.45	-153.48	-48.81	-12.13	8.04	-2.84
Allianz Bajaj Life Insurance Co. Ltd.	-276.01	-204.31	-36.76	-26.81	-26.55	-15.65
Reliance Life Insurance Co. Ltd	-537.1	-221.99	-54.01	-77.8	6.16	2.06
AVIVA Life Insurance Co. Ltd	-465.01	-333.25	-90.97	-64.2	-34.22	
Sahara India Life Insurance Co. Ltd	-14.12	-13.6	-7.47			
Bharti AXA Life Insurance Co. Ltd		-80.43				
Shriram Life Insurance Co. Ltd		N/A				
Life Insurance Corporation of India	732.62	631.58	708.37	551.81	496.97	821.79

Note: profit and loss after tax is taken

SOURCE: COMPILED FROM ANNUAL REPORTS, IRDA, (VARIOUS YEARS)

ANNUAL REPORT- LIC OF INDIA (2006-07)

FINDINGS OF THE STUDY:

From the above data analysis ,it can be concluded that there is a significant differences in the performances of private life insurance companies and the public sector LIC. From the performance analysis of private and public insurers it is found that premium income, market share, equity share capital, profit and loss account of the companies vary tremendously over the years .The future of the companies both public and private lies only those who understand the need of the customers by providing innovative products suitable according to the needs of the customers ,adopting proper distributional channel, reaching out to rural poor and covering them under the financial blanket.

SUGGESTIONS:

- 1) There is still lot of scope for private insurers as well as public insurer to capture the market as the penetration is low in comparison to developed countries.This helps the companies to widen their horizon thus bringing about improvement in their network expansion.
- 2) There is fear among the people to invest in private companies, hence a lot of effort has to be put in by the insurers to gain the confidence of the public.
- 3) Private sector insurers should spread their base in prospective rural areas in order to increase their density.
- 4) Insurance products has to be designed according to the customer needs specially to provide effective risk coverage and encourage them in long term investment in insurance.
- 5) More focus should be on customer awareness, product innovation, customer services and technology which inturn leads to better financial performance

CONCLUSION

From the above analysis it can be concluded that with the entry of private life insurers the share of public sector has declined. However by the virtue of the government support and the faith of public in terms of security and trust held by them in government investment LIC is still a major giant in life insurance business. With the passage of liberalisation and support laid by IRDA private life insurers are coming up with innovative and attractive strategies and products in order to gain market for themselves. Due to huge population of the country which is still untapped ,insurers both private and public has immense opportunities to expand their business in India. From the above objectives set and analysis done it can be said that there is a significant differences in the performances of public and private sector life insurance companies.

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