



# Analysis of Life Insurance Industry in India- Past, Present & Future

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## Abstract

In the Indian context life insurance industry faced many challenges like low literacy rate, consumer perception, awareness, Income of people, Government policy etc. A major cause for this upliftment is indeed the acceptance and adaptation of liberalization privatization and globalization (LPG) in the year 1991. After 1991 the Indian life insurance industry has geared up in all respects, as well as it is being forced to face a lot of competition from many national and international private insurance players. This paper is aimed at examining the status of Insurance Industry of India in pre & post liberalized era as well as estimating future trend of insurance business in India, as to analyze its future position in the day- by- day enhancing competition. In this paper attempt has been made to analyze the overall performance of Life Insurance Industry of India between pre- and post economic reform era. To measure the current status, volume of competitions and challenges faced by the Life Insurance Corporation of India and to measure the effectiveness of penetration over the period 2011 to 2018. The study reveals that there is a tremendous growth in the performance of Indian Life Insurance industry and LIC due to the policy of LPG. Insurance industry also improved a lot due to the emergence of Private sector and opening up for foreign players. Further there is also a huge change in the investment pattern of LIC.

**Keywords:** Life Insurance, Liberalization, Privatization, Globalization.

**DOI NUMBER: 10.48047/NQ.2022.20.1.NQ22403 NEUROQUANTOLOGY 2022;20(1):1182-1187**

## INTRODUCTION

The insurance sector is growing at a speedy rate of 15-20%. Life insurance is one of the fastest growing sectors in India since 2000 as Government allowed Private players and FDI up to 26% and recently Cabinet approved a proposal to increase it to 49%. Life Insurance in India was nationalized by incorporating Life Insurance Corporation (LIC) in 1956. All private life insurance companies at that time were taken over by LIC. In 1993, the Government of India appointed RN Malhotra Committee to lay down a road map

eISSN1303-5150

for privatization of the life insurance sector. The LIC- A public sector giant, which never faced competition earlier, now has to complete with the private players, who boast of the rich and long experience of their partners from the developed countries of the world. So it becomes necessary to study the performance of insurance in India, succeeding sector reforms.

## Objectives

1. To analyze the performance and growth of Insurance Industry in Pre and Post LPG era.



2. To analyze the future trend of business of Insurance in India.

### Limitations

1. This data is secondary in nature.
2. As the data is taken by IRDA annual report , so analysis is based on reports.

### Research Methodology

Basically, secondary data is used for studies which consisted of published annual reports of the concern years of LIC of India, Website of LIC of India, Website of IRDA, Journals, Magazines of LIC of India and reference books. Figures are taken from annual reports of IRDA and are compiled, tabulated and analyzed.

### REVIEW OF LITERATURE

Peter Drucker (1999)<sup>1</sup> Admitted that Life Insurance became the biggest financial industry in the century. He also admitted .

Arora R.S. (2002)<sup>2</sup> highlighted that due to LPG policy in India LIC facing cut throat competition in India

Sabera (2007)<sup>3</sup> The entry of private players in India create huge competition it also change the operations of business. It results the restructuring the public sector companies.

Chandrsekhar, C.P. (2009)<sup>4</sup>, in his article on "Learning nothing: Forgetting Everything", observes that the government promoting privatization in spite of there is no evidence of nationalized insurance industry to meet its obligations.

Indian Chambers Of Commerce (2016)<sup>5</sup> , India insurance perspective reviewed that India's robust economy is expected to keep pace with the growth in insurance premiums written. Higher personal disposable incomes will result in higher household savings that will be channeled into different financial savings instruments like insurance and pension policies. Harpreet Singh, DR. Preet Singh (2011)<sup>6</sup> It was found that the total business of LIC is in an increasing trend. The collected and analyzed

data prove that the LPG is incorporating a positive influence on LIC of India and its performance. It also observed that increasing competition LIC facing the competition in India. It also aggression and flexibility are the major factors for increasing the business.

Bashir Ahmad Joo (2013)<sup>7</sup> Proper product pricing and sound risk management practices plays important role in Insurance Industry. Based on their financial performances, it seems each player in the market is contended or they are together improving their ratios and hence there is no significant shift observed to strengthen the hypothesis. However, as ratios are important for future sustainability, firm size was observed most significant variable, having impact on solvency margin.

Venkatesh (2013)<sup>8</sup> in his study of trend analysis of insurance sector in India underlines that though Indian insurance sector is growing, compared to the growth of developed countries, growth in Indian insurance, both life and non-life is slower and suggests that proper strategies may be implemented to increase the pace of growth of insurance sector in India.

P. Suganthi, Dr. S. Rajaram (2016)<sup>9</sup> The paper discusses the growth of Indian Insurance sector in terms of selected financial and marketing variables from 2007-08 to 2014-15. Trend analysis and compounded annual growth rate are also presented in this paper.

### History of life insurance in India

In 1818, the first insurance company in India was established in Calcutta (modern day Kolkata), The Oriental Life Insurance Company. Similarly, Bombay (Mumbai) had the Bombay Life Assurance Company and Madras (Chennai) had the Madras Equitable Assurance Company, which were started in 1823 and 1829 respectively. During the initial year of this century, the industry was highly unregulated. It was only in 1912 that the Indian Life Insurance Companies Act, 1912 was passed. By 1938, there were around 176 insurance companies in India with the total business valuing around Rs.



300 crores. While the demand for nationalization of insurance companies had been going on for a while, it was only with the passing of the Life Insurance Corporation Act of 1956 that nationalization of insurance as finally achieved. On September 1, 1956, the Life Insurance Corporation of India (LIC of India) was established with the intent of covering all Indians across the length and breadth of the nation. As per the recommendations made by the Malhotra Committee, two things happened in the year 1999: one, the private sector was permitted to enter the insurance business and, two, the Insurance Regulatory and Development Authority of India (IRDAI) was constituted. IRDAI was incorporated in April 2000 and is now an autonomous body that works towards growing the insurance industry.

Today there are 31 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life insurance companies operating in the country. The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

Table 1 shows the achievements of LIC in forty years of its existence. Growth of LIC between 1959 and 1999 (Pre-Reform Period) (Being the only life insurance company during that period LIC's growth of business is quite evident from the table above)

**POST NATIONALIZATION TREND**

Table 1 shows the achievements of LIC

S.NO.	PARTUCULARS	1959	1999
1	Annual Business in Force		
	Sum Assured	336.3 crores	75606 crores
	Polices	800,000	1485700
	Premium	14 crores	4171 crores
2	Group Business In Force		
	Sum Assured	5.29 crores	69558 crores
	No. of Lives		21671000
	Life Funds	41040 crores	127389.06 crores

**Analysis and Interpretation:**

**No. of Offices of Insurance Companies in India**

It is observed that overall growth of offices is increasing after privatization. But LIC branch growth is gradually increasing. Initially private players open the branches exponentially and in 2011 they reduce the rate.

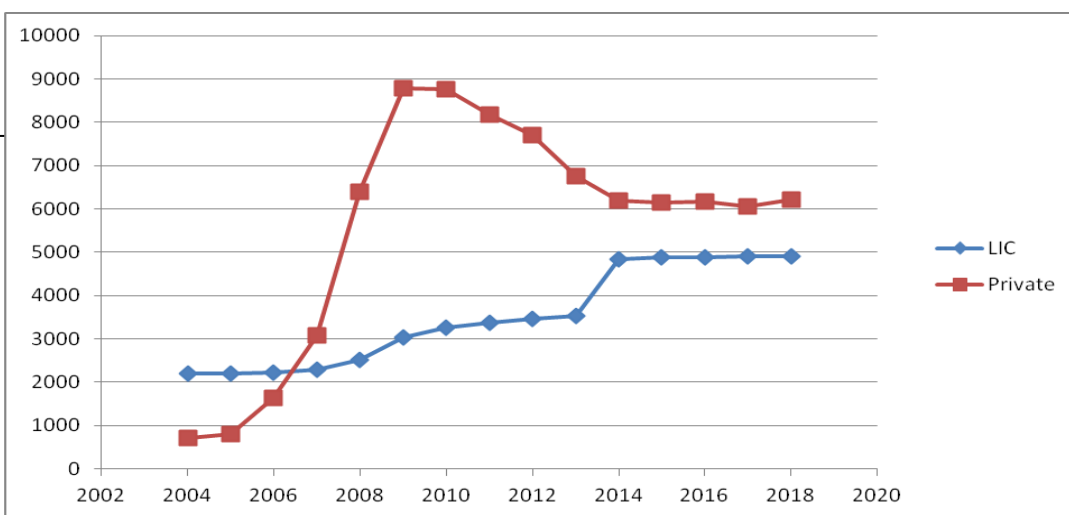
Table 2 shows the No. of Offices of Insurance Companies in India

Year	2004	2005	2006	2007	2008	2009	2010	2011
LIC	2196	2197	2220	2301	2522	3030	3250	3371
Private	710	804	1645	3072	6391	8785	8768	8175



Total	2906	3001	3865	5373	8913	11815	12018	11546

Year	2012	2013	2014	2015	2016	2017	2018
LIC	3455	3526	4839	4877	4892	4897	4908
Private	7712	6759	6193	6156	6179	6057	6204
Total	11167	10285	11032	11033	11071	10954	11112



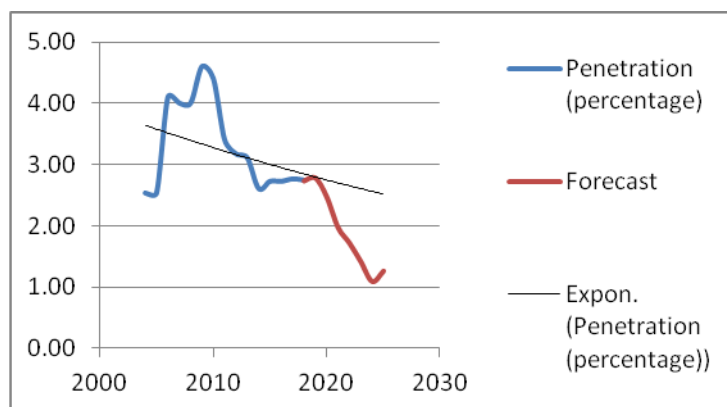
**Insurance penetration and density for Indian Life insurance sector**

Insurance Penetration calculated as the Total premiums collected by Gross Domestic Product and Insurance Density calculated as Total premium collected by the population are the commonly used measures to capture the growth of insurance industry in an economy.

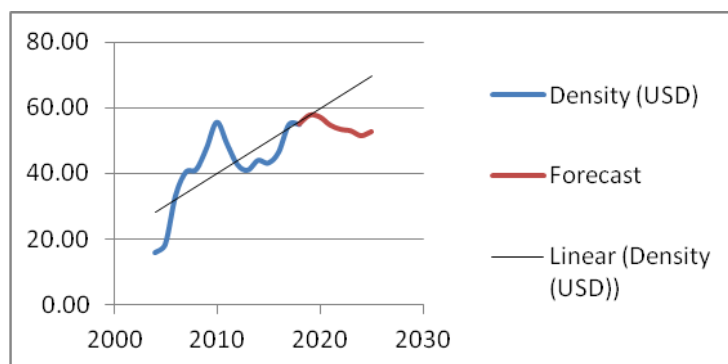
Table 3 presents the insurance penetration and insurance density of Indian life insurance sector for the study period. From the table, it is revealed that ratio of density have increased after 2010. In this table it shows the future forecast of density and penetration of life business in India upto 2025. In this forecast is done by using excel and trend line also drawn.

Table 3: Insurance penetration and density for Indian Life insurance sector

Year	Density (USD)	Penetration (percentage)
2004	15.70	2.53
2005	18.30	2.53
2006	33.20	4.10
2007	40.40	4.00



2008	41.20	4.00
2009	47.70	4.60
2010	55.70	4.40
2011	49.00	3.40
2012	42.70	3.17
2013	41.00	3.10
2014	44.00	2.60
2015	43.20	2.72
2016	46.50	2.72
2017	55.00	2.76
2018	55.00	2.74



( Source: Secondary Data Annual Reports of IRDA)

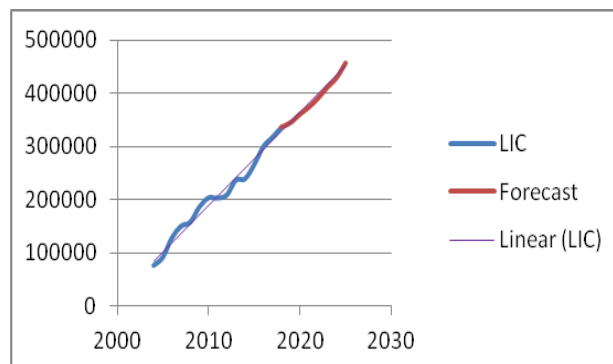
**Total Life Insurance Premium underwritten (Rs. In Cr. )**

Table 4 gives the details of premium collected by life insurance companies, both LIC and private players during the study period. It is understood that the insurance premium had increasing year on year bases. IRDA tightened norms in 2010 for unit linked products, the

premium of which declined drastically after 2010. Fall in the First year premium after 2011 is also considered as a reason for negative growth in insurance premium collected in 2012. Between 2008 and 2018, the trend value indicates that the premium collection has grown by 63% and compounded annual growth rate (CAGR) is a mere 6%

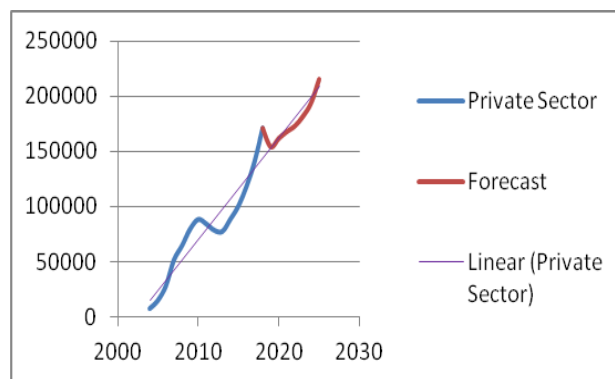
**Table 4: Total Life Insurance Premium underwritten (Rs. In Cr. )**

Year	LIC	Private Sector	Total
2004	75127.28	7727.5	9731.5
2005	90792.22	15083.53	17088.53
2006	127822.84	28253.01	30259.01
2007	149789.99	51561.42	53568.42
2008	157288.04	64497.44	66505.44
2009	186077.31	79369.94	81378.94
2010	203473.4	88165.24	90175.24
2011	202889.28	84182.13	86193.13
2012	208803.58	78398.91	80410.91
2013	236942.3	77359.36	79372.36



2014	239667.65	88433.49	90447.49
2015	266444.21	100499.02	102514.02
2016	300487.36	117989.26	120005.26
2017	318223.2	140586.24	142603.24
2018	337505.07	170626.96	172644.96

( Source: Secondary Data Annual Reports of IRDA)



### CONCLUSION

The paper discusses the growth of Indian Insurance sector in terms of selected financial and marketing variables from 2004-05 to 2018-19. Along with this, year-on-year growth, trend analysis and compounded annual growth rate are also presented in this paper. After the reforms in insurance sector, life insurance industries have seen a remarkable growth moreover; the policies measures provided a favorable environment for insurance companies to flourish in the country. Till 2013 there were 52 insurance companies operating in India of which 24 are in life insurance business. The share of the life insurance business in total insurance business was very high is ranked 10th among 88 countries. LIC has been successfully able to create value for its customers or policy holders. By analyzing the pre and post performances, It is showing a respectable growth in its business. There is enormous potential for life insurance and no doubt that LIC still enjoys immense goodwill in our country. But private players are giving cut throat competition, So LIC has to made more efforts to enhance its business in terms of technology distribution network, technological innovations, client relationship and quality.

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