# GLOBAL FINANCIAL CRISIS AND LIFE INSURANCE SECTOR IN INDIA – A COMPARATIVE STUDY OF LIC WITH PRIVATE SECOTR

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## ABSTRACT

*Life insurance is a fast growing service sector in India during the last eleven years after the entrance of private sector in this field. The low penetration and low insurance density has made this sector as a fast developing sector in India. The insurance sector contributes 5.2 per cent of GDP in 2011. The global meltdown and consequent economic recession in developed economies have clearly been major factor in India's economic slowdown. The saving nature of the Indian's led the country in a better position even in the eve of global financial crisis. The insurance sector shows a setback during the years 2007-08 and 2008-09 due to the global meltdown. The life insurance sector had able to overcome the short time setback mainly because of the investment attitude of the people in the country and made the financial year 2009-10 in a growth stage .The results of the insurance companies during the year 2010-11 also show an upward trend. This clearly indicates that life insurance sector will continue to grow in future because of the peculiar nature of the inhabitants in the country and also due to huge untapped potential in this sector in the country. The increase in disposable income, aging population, no universal life cover and tax benefits to life insurance products make life insurance market an attractive proposition for insurance companies. The crisis made the insurance companies more competitive in their products and efficient in their administration leads to better products to the consumers.Untapped rural markets, lower consumer preference and constrained distribution channels are understood to be the reasons for the lower levels of penetration. And more reforms will certainly make this growing sector appear more attractive for existing and newer participants.*

***Keywords:*** *Insurance, Financial Crisis, Global Meltdown, LIC, Private Sector*

**Introduction:**

The Indian insurance market has undergone a transformation in the last decade after the sector was thrown open for private sector participants with the enactment of IRDA in 1999. But it remains significantly under-exploited and thus offers opportunities to both, the existing players and potential entrants.The high disposable income, aging population, no universal life cover and tax benefits available to life insurance products attracted the insurance companies to enter into the ever growing life insurance market. The life insurance sector in India has seen a phenomenal growth over the post liberalization period to the pre-liberalization period. During the pre-liberalization period, the life insurance penetration was 1.77(1999-2000) and it increased to 4 (2009-10). The untapped rural markets, lower consumer preference and the constraints regarding the distribution channels are the reasons for the low level of penetration in the country. The number of players in the life insurance sector has also increased considerably from one to 23 during the same period. The life insurance density also shows an increase from Rs 342 to Rs.1854. Again, the new business premium, average sum assured and average premium collected shows substantial growth during the same period. These facts reveal that a vast potential for growth is opened up to the life insurance sector in India. India is the fifth largest market in Asia by premium following Japan, Korea, china and Taiwan. The India's population is concerned; present growth is not a satisfactory one. Again, India is at the 18$^{th}$ position among Life Insurance Markets in the world. The total assets held by life Insurance industry stood at about Rs 1, 29,000 crore as on March 31, 2010. All these clearly indicate that there is a huge potential, yet to be explored.

The Life Insurance Corporation of India (LIC), the sole public sector player accounts for more than 70% of the business, while the 22 private players occupies the rest of the (30%) business (2010-11). The total premium collected by life insurers during the year 2009-2010 was Rs 2,61,025 crore and out of which new business premium collected was Rs 1,09,213 crore (41.84%). The saturation of insurance markets in the developed countries has made the Indian market more attractive for international players.

**Literature Review:**

Thomas Hess (2002) viewed that insurance plays an important role in the developmental process of an economy and its role is more pronounced in developing economies.

Jawaharlal (2003) opined that the entry of private players has revolutionized the market for riders,

Murthy GRK (2003) stated that Indian insurance companies need to switch over to better methods of corporate governance to create confidence in the minds of the investing public.

Sharma NC (2004) stated that even after liberalization the growth of the life insurance industry in India is inextricably linked to the fortunes of LIC,

Anuroop Tony Singh (2004) stated that selling insurance in India is an attractive opportunity because of the vast untapped potential but is fraught with challenges such as language and cultural barriers and low purchasing power.

Naren Joshi (2004) felt that consumer education is an important factor to the growth of the insurance industry in India.

Rajesh Jhampala (2005) stated that multi-channel distribution and marketing of new insurance products have been the strategy of new players and that this trend would continue in the future,

Nirjhar Majumdar (2010) opined that Indians take insurance policies more as a long term savings tool or a tax savings tool or may be as a tool to get some access to the stock market (in case of ULIP policies) and getting a risk cover is only incidental to all these.

**Global Financial Crisis and Insurance Sector:**

Finance is considered as the backbone of any sector whether manufacturing or service sector. Proper managing of finance is the pre-requisite for the success of any sector in anywhere in the world. The globalisation and liberalisation processes has made the world market as one and any change in the situation in any market will definitely led to similar changes in the market on the other end. The intensity of changes may be high or low depending upon the connection or relation with the sector. The Foreign Direct Investment (FDI's) and Foreign Institutional Investment (FII's) in India will be severely affected due to the global financial crisis and it resulted in subsequent changes in the financial market including secondary market and insurance sector.

Service sector contribute the larger chunk to GDP in India and Insurance sector is one of the important prime service sector in India.The life insurance sector is one of the prime sector for the economic development of the country. The insurance sector is opened up for foreign participation up to the limit of 26 % .A proposal for increasing the foreign investment to 49% is under consideration. The FII's play an important role in country's stock markets and control the market and take away the benefits in a better way. The insurance companies together invest Rs 65,000 crore in equities where as the FII's invest Rs.1.2 lakh crore during the year 2009-10. The life insurance companies will emerge as a strong counterbalance to FII's in the next few years. The severe economic slowdown in the financial year 2007-08 has led to stagnation in the fast-growing life insurance industry. The life insurance sector has been able to maintain a robust growth rate for the first year (2007-08) of the global financial meltdown while other sectors have been severely affected. But in the next financial year (2008-09) this sector has also started to face the heat of recession and posted a negative growth rate for the first time since privatization. The year 2009-2010 shows progress in the life insurance sector. The impact of the global financial crisis of 2007 to the Indian life insurance sector is measured by using the variables such as insurance penetration, insurance density, number of insurance policies issued, number of insurance premiums collected, total premiums collected and profit obtained. The performance of the life insurance sector in the financial year 2008-09 was largely influenced by the sub-prime crisis.

India is a savings-centric economy.The life insurance companies are large investors with long term investment horizons than other financial institutions like banks. This helps the life insurance sector to withstand the short term shocks. This sector has the capacity of raising long term capital from the public as it is the only avenue where people put in money for as long as 30 years or more. The life insurance sector is a fast growing sector in the Indian economy. The total insurance market has grown at a robust CAGR of 27.1 per cent during the financial year 2001 to 2008. No country including India, remained immune to the global economic shock (economic survey 2009).Again, there is no exception to any sector in the country from the clutches of the financial crisis .It hits all the fields in the economy like industry, agriculture, services sector etc. The service sector is the largest contributor to the GDP in India. Despite the global economic slowdown, the service sector in India contributed 56 % to the GDP in 2008-09. The slowdown in new business has halted the spectacular growth witnessed in the life insurance business ever since the sector was opened up in the late nineties. The economic downturn has adversely affected the life insurance industry which has seen a reduction of Rs.6000 crore in the new premium in India (2008-09).Interestingly, Unit Linked Insurance Plan (ULIP), one of the major contributors to growth in two earlier years, became a major troublemaker for the industry in 2008-2009.The stringent guidelines

**Table 1 : First Year Premium-LIC and Private Sector (in Crores)**

| Year | LIC | % change | Private Sector | % change | Total | % change |
|---|---|---|---|---|---|---|
| 2004-05 | 19454.15 | - | 5620.01 | - | 25074.16 | - |
| 2005-06 | 25645.28 | 31.82 | 10255.74 | 82.49 | 35900.93 | 43.18 |
| 2006-07 | 56541.99 | 120.48 | 19529.28 | 90.43 | 75453.97 | 110.17 |
| 2007-08 | 59182.21 | 4.67 | 33807.30 | 73.11 | 92989.98 | 23.24 |
| 2008-09 | 53013.93 | -10.42 | 33962.68 | 0.46 | 86976.62 | -6.47 |
| 2009-10 | 70490.22 | 32.97 | 38402.44 | 13.07 | 108892.66 | 25.20 |
| 2010-11 | 86444.72 | 22.63 | 39381.30 | 2.55 | 125826.02 | 15.55 |

Source: IRDA Annual Reports.

issued by IRDA for unit linked insurance plans(ULIP) with effect from 1st September ,2010 also affected the sale of insurance policies during the year 2010-11.

**Methodology:**

To analysis the performance of life insurance sector, the secondary data is used. The data has been collected from IRDA (Insurance Regulatory and Development Authority) Annual Reports, Life Insurance Corporation of India, Journals, etc. To analysis the data, percentages, average were used.

**Results and Discussion:**

**First Year Premium-LIC and Private Sector :**

The Table 1 shows the first year premium underwritten by the Life Insurance Corporation of India and all other private sector insurance companies together during the last seven years. The growth was 120.48% in the case of LIC and the private sector insurance companies together, it was 90.43% during the year 2006-07.The overall growth of LIC during the year 2007-08 was only 4.67 per cent. The year 2008-09 shows a negative growth of 10.42 % in premium collection as compared to the previous year 2007-08 for the first time in the history of life insurance corporation of India. The reduction was 6,168.28 crore and it was due to the sudden impact of the financial crisis in the life insurance sector. But the financial year 2009-10 shows a positive growth of 32.97 per cent. This clearly indicates that the life insurance sector is on the pathway of growth. But, the growth rate during the year 2010-11, it was 22.63%.In the case of private sector, the growth rate was 73.11 per cent (2007-08) while it was only 0.46 per cent during the year 2008-09.The growth was 13.07% during the year 2009-10 and it was only 2.55 per cent in the year 2010-11.The number of insurance companies in the private sector has increased from 12 during the year 2004-05 to 22 during the year 2010-11.The total growth of life insurance companies during the year was 15.55%.

**First Year Premium Underwritten by Leading Insurance Companies:**

The first year premium underwritten by leading insurance companies in the public sector (LIC) and other private sectors reveals a positive growth during the financial year 2010-11 as compared to the previous year except in the case of Bajaj Allianz Life, Reliance Life and Birla Sun Life (Table 2). It shows a negative growth of 22.22%, 22.60% and 29.78% respectively. HDFC Life shows 24.66% growth followed by ICICI Prudential (24.11%), LIC (21.95%) and SBI Life (7.53%) growth as compared to the previous year. ICICI prudential and SBI life are the first and second positioned life insurance companies in the private players during the year 2010-11.The investment tendency of the Indian masses towards the life insurance policies of the insurance companies are revealed from the growth statistics.

**Number of Insurance Policies Issued by LIC and Private Sector:**

The number of insurance policies issued by the insurance companies shows the insurance penetration. Table 3 reveals that the number of insurance policies issued by the LIC shows a negative growth during the years 2007-08 and 2008-09 as compared to the corresponding previous years. The negative growth was 4.52 per cent during the year 2008-09 as compared to the year 2007-08.But the year 2009-10shows a growth rate of 10.80 %. Again, the year 2010-11 shows a negative growth in the sale of life insurance policies of LIC.

The number of insurance policies issued by Private sector shows high growth during the years 2005-06 and 2006-07 and 2007-08.But the growth was only 13.14 % during the year 2008-09 as compared to the year 2007-08.The year 2009-10 shows a negative growth of 4.6 % in the sale of insurance policies. The year 2010-11 shows a negative growth of 22.62%.Majority of insurance policies issued by private sectors belongs to ULIP policies and after the financial crisis of 2007, the sales were drastically come down. The stringent measures taken by the IRDA during the year 2010-11 also resulted in decrease in the sale of life insurance policies.

**Total Premium Collected by LIC and Private Sector:**

Table 4 shows that the share of LIC has declined from 90.67 per cent during the year 2004-05 to 69.80 per cent during the year 2009-10.The share of private sector life insurance companies together was 30.20 during the year 2009-10.

**Table 2 : Leading Insurance Companies (in Crores)**

| Insurers | Apr-Mar 2010 | Apr-Mar 2011 | % growth |
|---|---|---|---|
| LIC | 70,891 | 86445 | 21.95 |
| SBI Life | 7,041 | 7571 | 7.53 |
| ICICI Prudential | 6,334 | 7861 | 24.11 |
| Bajaj Allianz Life | 4,451 | 3462 | -22.22 |
| Reliance Life | 3,921 | 3035 | -22.60 |
| HDFC Standard Life | 3,261 | 4065 | 24.66 |
| Birla Sun Life | 2,958 | 2077 | -29.78 |
| Max New York Life | 1,848 | 2060 | 11.47 |
| **Private total** | **38,399** | **39381** | **2.56** |
| Total | 108893 | 125826 | 15.55 |

Source: IRDA Annual Reports.

**Table 3: Number of Insurance Policies Issued by LIC and Private Sector (in lakhs)**

| Year | LIC Total | % change | Private sector Total | %change | Total | %change |
|---|---|---|---|---|---|---|
| 2004-05 | 239.78 | - | 23.10 | - | 262.88 | - |
| 2005-06 | 315.91 | 31.75 | 39.08 | 69.15 | 354.99 | 35.03 |
| 2006-07 | 382.29 | 21.01 | 79.48 | 103.38 | 461.77 | 30.08 |
| 2007-08 | 376.13 | -1.6 | 133.05 | 67.40 | 509.18 | 10.27 |
| 2008-09 | 359.13 | -4.52 | 150.53 | 13.14 | 509.66 | 0.09 |
| 2009-10 | 402.94 | 10.80 | 143.62 | -4.6 | 532.18 | 4.42 |
| 2010-11 | 370.38 | -8.08 | 111.14 | -22.62 | 481.52 | -9.52 |

Source :IRDA Annual Reports .

**Table 4: Total Premiums Collected by Life Insurers (in crores)**

| Year | Private sector | % change | LIC Total | % change | Total | % change |
|---|---|---|---|---|---|---|
| 2004-05 | 7727.51 | - | 75127.29 | - | 82854.80 | - |
| 2005-06 | 15083.54 | 14.25 | 90792.22 | 85.75 | 105875.76 | 27.78 |
| 2006-07 | 28253.00 | 18.10 | 127822.84 | 81.90 | 156075.84 | 47.41 |
| 2007-08 | 51561.42 | 25.61 | 149789.99 | 74.39 | 201351.41 | 29.01 |
| 2008-09 | 68053 | 30.51 | 155000 | 69.49 | 223053 | 10.78 |
| 2009-10 | 78,825 | 13.7 | 182200 | 14 | 261025 | 17.02 |

Source : IRDA Annual Reports.

**Table 5: First Year Premium and Renewal Premium of LIC &Private Sector (in crores)**

| Insurer | | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 |
|---|---|---|---|---|---|---|---|
| **Private Sector** | First year | 38402.44 | 34153.71 | 33715.95 | 19425.65 | 10269.67 | 5564.57 |
| | Renewal | 40422.56 | 33899.29 | 17845.47 | 8827.35 | 4813.87 | 2162.94 |
| | **Total** | **78825** | **68053.00** | **51561.42** | **28253.00** | **15083.54** | **7727.51** |
| **LIC** | First year | 70490.22 | 52953.92 | 59996.57 | 56223.56 | 28515.87 | 20653.06 |
| | Renewal | 111709.78 | 102046.08 | 89792.43 | 71599.28 | 62276.35 | 54474.23 |
| | **Total** | **182200.00** | **155000.00** | **149789.99** | **127822.84** | **90792.22** | **75127.29** |
| **Total** | First year | 108892.66 | 87107.63 | 93712.52 | 75649.21 | 38785.54 | 26217.63 |
| | Renewal | 152132.34 | 135945.37 | 107638.89 | 80426.63 | 67090.22 | 56637.17 |
| | **Total** | **2,61,025.00** | **223053.00** | **201351.41** | **156075.84** | **105875.76** | **82854.80** |

**Source:** IRDA Annual Reports.

**Table 6: Share of ULIP to the Total (in percentage)**

| Insurer Sector | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|---|---|
| LIC | 21.69 | 29.76 | 46.31 | 31.61 | 22.06 | 25.40 |
| Private sector | 71.28 | 82.48 | 87.47 | 88.34 | 86.74 | 86 |
| Total | 32.54 | 44.78 | 56.92 | 46.14 | 40.87 | 43.52 |

Source: IRDA Annual Reports.

**First Year Premium and Renewal Premium of LIC & Private Sector:**

The total insurance premium collected by life insurance corporation of India and the private sector's total are shown in Table 5.The total premium collected by the insurance sector during the year 2009-10 was Rs.261025 crore and it shows 17.02 % growth as compared to the previous year. The total premium collected by insurance sector shows a positive growth throughout the period.

**ULIP policies in LIC and Private sector:**

A Unit Linked Insurance Plan, popularly called ULIP, is a financial product that offers the twin benefits of life insurance as well as an investment. Many people prefer this policy due to the twin benefits. But the return on investment from ULIP may not be guaranteed. The dynamics of the capital market have a direct bearing on the performance of the ULIPs. The stock market shows a positive trend during those years. This will resulted the high growth of ULIP policies. The sensex was 13000 in the year 2006.It increased to 20000 plus at the end of 2007.The stock market meltdown at the end of the year 2008 and the index goes down below 8000.This melt down was due to the global financial crisis. The impact was more on the ULIP sector because these are closely related to the stock market. The private sector insurance companies are severely affected because major share of their products are from ULIP.

Table 6 shows the percentage of ULIP premium on the total premium collected by the insurance companies. The share of unit linked insurance premium of LIC was 21.69% during the year 2004-05.The share increased to 46.31 % during the year 2006-07.The year 2007-08 and

2008-09 gives the impact of financial crisis and the share of unit lined policies in the case of LIC was 22.06% in the year 2008-09.The increase in the share market leads to an increase in the share of ULIP to 25.40% in the year 2009-10.The private sector is concerned,71.28% of their share was from ULIP. It increased to (number of private sector companies also increased) 88.34% in year 2007-08 and shows a decrease to 86% during the year 2009-10.The Industry total is concerned,it was 32.54% in the year 2004-05.It increased to 56.92% during the year 2006-07 and thereafter, it shows a decreasing trend. The share of ULIP was40.87% in the year 2008-09.The year 2009-10 shows an increase due to the recovery trend in the global market and also in the stock market in India.

**Conclusion:**

The growth potential and opportunities for the Indian life insurance industry is very strong. It is one amongst the fastest growing service sector in India. Although the global recession has had some impact on the Indian Life Insurance industry, it will continue to grow strongly in the next few years on low insurance penetration and low insurance density. The insurance industry has reacted the crisis by introducing new products and schemes with an aim to give the investor who had begun to avoid savings, adding that it was about winning the trust of the investor back. The Unit Linked Insurance Policies of insurance companies negatively affected the sale of insurance products during the last few years. The year 2009-10 shows a recovery in the life insurance sector and also in the ULIP sector. A fine balance between traditional policies (more insurance) and investment plan (ULIP) will definitely result an improvement in this sector. The rural sector was not yet penetrated. The private sector insurance companies should also concentrate on traditional policies and products that yield at least a fixed return to the investors. A mixture of traditional and ULIP policies will result the growth of life insurance sector in the future.

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