

A COMPARATIVE STUDY OF PUBLIC & PRIVATE LIFE INSURANCE COMPANIES IN INDIA

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ABSTRACT

Since 1991, Indian economy and industry has moved away from a state controlled to a competitive market with intricate financial services to the global economy. The financial sector, particularly, the Insurance has opened up to all competition. A revamp in tightly regulated and monopolised insurance sector was brought about by the passage of the Insurance Regulatory and Development Authority Act (IRDA) in 1999. The present paper analyses the performance of public and private life insurance companies in India. As per the total premium income, in FY 2014-15, LIC with 73% of business share still holds a significant market share. 24 private insurance companies have established footholds in the market leading to intense competition. Private Insurance companies have a higher growth rate as compared to public sector. Today, Insurance penetration is better. The Insurance companies are competing in terms of policies sold, collection of premium income and others.

Keywords: Life Insurance, Life insurance companies, Fresh life insurance premium, New insurance policies, Total insurance premium.

INTRODUCTION



Life Insurance is a professional service which is characterized by high involvement of the consumers, due to the importance of tailoring specific need, the variability of the products available, the complexity involved in the policies and processes and ultimately the need to involve the consumer in every aspect of the transaction. Life insurance more fondly known as Life Assurance has, in recent times ceased to be only a 'Protection' or 'Legacy' for the family and has turned into an important investment outlet.

India's economic development made it a most lucrative Insurance market in the world. Before the year 1999, there was monopoly state run Life Insurance Corporation of India (LIC) transacting life business. Today, there are 24 private life insurance companies operating insurance business in India. The competition from these companies were threatening to the existence of LIC. Since the liberalization of the industry the insurance industry has never looked back and today stand as the one of the most competitive and exploring industry in India. In this paper, an attempt is made to analyse the performance of public and private life insurance companies in India.

REVIEW OF LITERATURE

A thriving insurance sector is of vital importance to every modern economy. It encourages the savings habit, it also provides a safety net to rural and urban enterprises and productive individuals, most importantly it generates long-term investable funds for infrastructure building. The nature of the insurance business is such that the cash inflow of insurance companies is constant while the payout is deferred and contingency related (Kumar, 2010).

During middle of 20th Century life insurance companies started to operate the evil play natural to all business had its sway. Number of competitors were entered and abolished while profiteering. On 1st September 1956,

Life Insurance Corporation of India came into existence after nationalisation of all 245 insurance providing companies. Malhotra Committee was constituted by the government in 1993 to examine the various aspects of the insurance industry. The key element of the reform process was Participation of overseas insurance companies with 26% capital. Creating a more efficient and competitive financial system suitable for the requirements of the economy was the main idea behind this reform (Kannan, 2010). In 1999, Insurance Regulatory and Development Authority (IRDA) has been established to regulate the insurance business in the country (Chaudhary and Kiran, 2011).

Sinha (2005) in his paper highlights the phenomenal growth experienced recently in connection with improvements in economic fundamentals. With comparison in growth, penetration, density and other insurance variables it can be said that still India is an underdeveloped insurance market with huge catch-up potential. It is found that there is potential for expansion of insurance into rural areas, growth has remained slow.

Chandrasekhar (2009) in his article "Learning Nothing, Forgetting Everything" observes that the Government has been pushing ahead with privatization despite there being no evidence of the nationalized insurance industry failing to meet its obligation to insurers or to the Government. The LIC has not only put at the Government's disposal large volumes of capital for investment but also addressed the problems of insurance for the poor.

Krishnaswami (2009) in his book "Principles and Practice of Life Insurance" explains clearly the history of insurance, advantages of insurance and the role of insurance in the economy and also in the society. The life insurance products, the concepts of premium, investment management and solvency margin are also discussed at length in the book.

Kannan (2010) viewed that India, being rich in population and most of the area is untapped, has tremendous scope for growth in insurance sector. Today insurance business is growing at the rate of 15-20% annually. Together with banking services, it adds about 7% to the country's GDP. In spite of all this growth the statistics of the penetration of the insurance in the country is very poor. Nearly 80% of Indian populations are without Life insurance cover and the Health insurance. This is an indicator that growth potential for the insurance sector is immense in India.

Imam (2011) analysed Customer behaviours in Life Insurance Industry. Researcher opined that the sale of life insurance policies in India is less than many western and Asian countries. As second largest populated country in world, the Indian insurance market is looking very prospective to many multinational and Indian insurance companies for expanding their business and market share. With their world market experience and network, these companies have offered many good schemes to lure all type of Indian consumers, but unfortunately failed to get the major share of market. Still the LIC is the biggest player in the life insurance market with approx. 65% market share.

Selvakumar & Piyan (2012) analysed the performance of public and private life insurance companies in India. Researcher opined that today's market is customer centric, and customer is supposed to be king of market. To satisfy customers innovations are taking place with distinct features to attract the customers.

Tiwari & Yadav (2012) conducted a Analytical study on Indian Life Insurance Industry in Post liberalization. Researchers concluded that Indian market is untapped market and found good opportunity. After 1991, the Indian life insurance industry has geared up in all respects and able to avail healthy competition from in-house and abroad players.

Motwani and Anchliaa (2013) conducted a study in Udaipur city to study comparative behaviour between public and private insurance companies. The was based on descriptive research design, in which a Close ended questionnaire was used to collect the primary data from customers of various Insurance companies. Conclusions of study reveal the impact of customers' demography on their choice between Public & Private Insurance companies.

Sharma and Chowhan (2013) in the research paper "A Comparative Study of Public & Private Life Insurance", made an attempt to analyse the performance of public and private life insurance companies in India. Researches concluded that with the entry of private players, the competition is becoming intense. In order to satisfy the customers, every company is trying to implement new creations and innovative product characteristics to attract customers.

OBJECTIVES OF THE STUDY

The objective of the present study is to compare the performance of public and private life insurance companies for period of 2005-06 to 2014-15.

HYPOTHESES OF THE STUDY

For the purpose of this study, the following null hypotheses are formed:

- H₀₁ : There is no significant difference in the growth rate of fresh business premium between public and private life insurance companies.
- H₀₂ : There is no significant difference in the growth of number of new policies issued among public and private life insurance companies.

H₀3 : There is no significant difference in the growth rate of total life insurance premium among public and private life insurance companies.

RESEARCH METHODOLOGY

The research paper is based upon descriptive as well as exploratory research. Secondary sources of data collection have been adopted for the study. The relevant and required data are collected from the annual reports of IRDA from 2005-06 to 2014-15. The performance of insurance companies is examined further by looking at the trend.

ANALYTICAL TOOLS

In order to analyse the collected data the following mathematical tools are employed :

To work out the trend analyses the following formula is used:

a.) Trend Analysis i.e. $\hat{y} = a + b x$

where \hat{y} = predicted value of the dependent variable

a = y – axis intercept,

b = slope of the regression line (or the rate of change in y for a given change in x),

x = independent variable (which is *time* in this case).

b.) Annual Growth Rate is worked out by using the following formula:

$$AGR = \frac{(X_2 - X_1)}{X_1 \times 100}$$

where X_1 = first value of variable X

X_2 = second value of variable X

c.) To confirm significance in difference of growth, Mann-Whitney U-test is used :

$$U = \frac{N_x + 1}{2} - T_x$$

where

N_1 and N_2 are the Number of the data in each group.

N_x is the Number of the data in the group that gave the larger rank total.

T_x is the larger rank total

COMPANY ANALYSIS

In December 1999, a bill was passed in the parliament with the passage of Insurance Regulatory and Development Authority for its reform process. However with the setting up of IRDA, the government has once again deregulated the sector by opening it for the private players.

Life Insurance Corporation of India (L.I.C.I) dominated the Indian Life Insurance market. But the situation drastically changed since the beginning of the year 2000. With the development of the IRDA Act in 1999, private players started entering into the life insurance market. At the end of March 2015, there are 53 insurance companies operating in India; of which 24 are in the life insurance business including one public sector company (L.I.C. of India) and 28 are in non-life insurance business.

On the basis of total premium income, the market share of LIC decreased from 75.39 per cent in 2013-14 to 73.05 per cent in 2014-15. The market share of private insurers has increased from 24.61 per cent in 2013-14 to 26.95 per cent in 2014-15. So, we can say that the state-owned Life Insurance Corporation (LIC) still holds a significant majority of market share, though, other companies have established footholds.

ANALYSIS OF DATA

a. Growth in Fresh Life Insurance Premium

Table 1 shows the trends of fresh life insurance premium of LIC of India and private insurance companies operating in India. This table reveals that growth in fresh life insurance premium for LIC is having a mixed trend and its growth rate varies from -13.55% (FY 2014-15) and 97.17% (FY 2007-08). In private sector also there is a mixed

trend in the fresh business premium during the years from 2005-06 to 2014-15. The rate of annual growth was highest in FY 2006-07 (89.16%) and it was lowest in FY 2011-12 (-18.49).

Table 1 : Details of Fresh Life Insurance Premium of LIC and Private Insurance Companies
(Amount in Rs. Crore)

FY	LIC		Private Insurance Companies	
	Amount	AGR (%)	Amount	AGR (%)
2005-06	28515.87	38.07	10269.67	84.55
2006-07	56223.56	97.17	19425.65	89.16
2007-08	59996.57	6.71	33715.95	73.56
2008-09	53179.08	-11.36	34152.00	1.29
2009-10	71521.90	34.49	38372.01	12.36
2010-11	87012.35	21.66	39385.84	2.64
2011-12	81862.25	-5.92	32103.78	-18.49
2012-13	76611.50	-6.41	30749.58	-4.22
2013-14	90808.79	18.53	29516.43	-4.01
2014-15	78507.71	-13.55	34820.23	17.97

Source: Annual Reports of IRD for FY 2005-06 to FY 2014-15

Fig. 1 : Trends of Growth rate of Fresh Life Insurance Premium of LIC and Private Insurance Companies

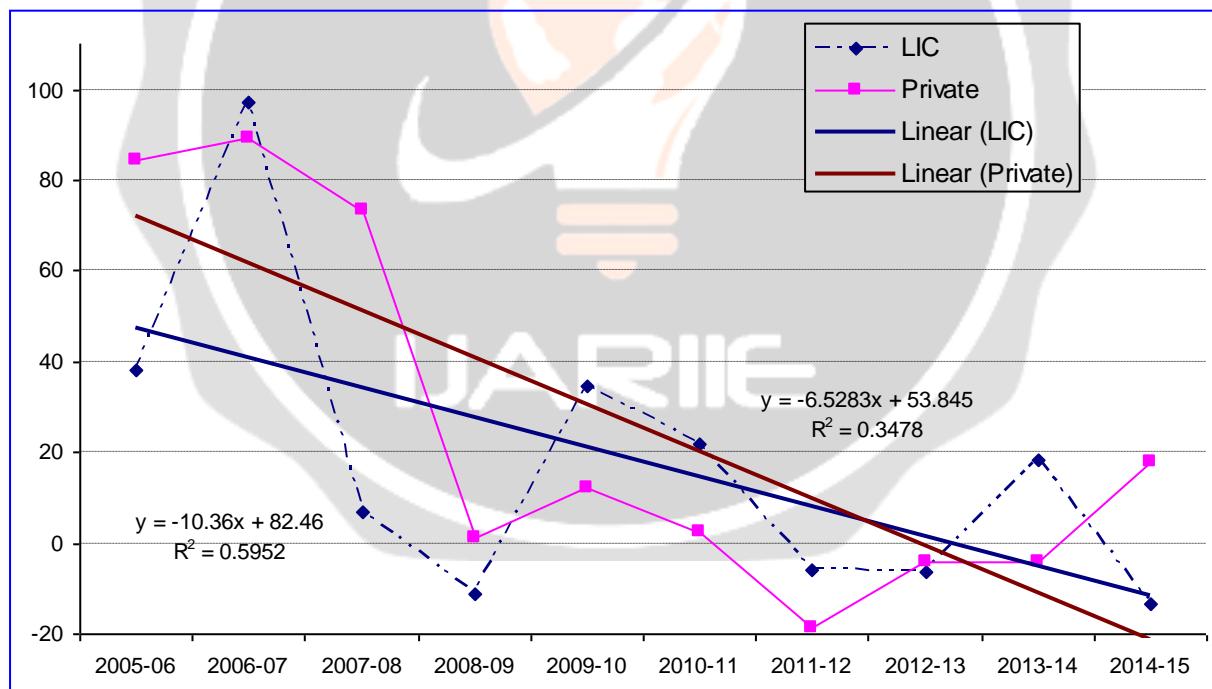


Fig. 1 shows that trends of Annual growth rate for both, LIC and private insurance companies are negative as trend lines are having negative slop.

To ascertain the significance of difference in growth rate of fresh life insurance premium of LIC of India and private insurance companies operating in India in reference period, Mann-Whitnet U-test is employed and results are shown in table No. 2.

To be significant, obtained value of U must be equal to or less than critical value of U at that significance level.

Table 2 : Mann-Whitney U-test for Fresh Life Insurance Premium of Public And Private Insurance Companies

FY	LIC		Private Companies	
	AGR	Rank	AGR	Rank
2005-06	38.07	16	84.55	18
2006-07	97.17	20	89.16	19
2007-08	6.71	10	73.56	17
2008-09	-11.36	3	1.29	8
2009-10	34.49	15	12.36	11
2010-11	21.66	14	2.64	9
2011-12	-5.92	5	-18.49	1
2012-13	-6.41	4	-4.22	6
2013-14	18.53	13	-4.01	7
2014-15	-13.55	2	17.97	12
Sum of Rank order		102		108
No. of Data		10		10
U-value			47	

For $N_1=10$ and $N_2=10$, the critical value of U is 23 for a two-tailed test at the 0.05 significance level and 16 for a two-tailed test at the 0.01 significance level.

Our Obtain value of $U = 47$ which is more than critical value of U (23) at significance level 0.05, So, it can be said that difference in growth rate of fresh insurance premium of LIC and Private Insurance companies is not significant at $p=0.05$.

b. Growth in New Life Insurance Policies issued

Table 3 : Details of New Life Insurance Policies issued by Public And Private Insurance Companies (FY 2005-06 to FY 2014-15)

(Numbers in Lakh)

FY	LIC		Private Insurance Componies	
	No.	AGR (%)	No.	AGR (%)
2005-06	315.91	31.75	38.71	73.35
2006-07	382.29	21.01	79.22	104.65
2007-08	376.13	-1.61	132.62	67.41
2008-09	359.13	-4.52	150.11	13.19
2009-10	388.63	8.21	143.62	-4.32
2010-11	370.38	-4.70	111.14	-22.62
2011-12	357.51	-3.47	84.42	-24.04
2012-13	367.82	2.88	74.05	-12.28
2013-14	345.12	-6.17	63.60	-14.11
2014-15	201.71	-41.55	57.37	-9.79

Source: Annual Reports of IRD for FY 2005-06 to FY 2014-15

Table 3 presents the yearly data related to new life insurance policies issued for the period of FY 2005-06 to 2014-15. It indicate that growth rate of new life insurance policies issued by LIC is having mixed trend as the annual growth in the numbers of new policies issued by LIC is was highest in FY 2005-06 (31.57%) and lowest in FY 2014-15 (41.55%). Private insurance companies have also registered mixed growth and its annual growth rate varies between 104.65% (FY 2006-07) and -24.04% (FY 2011-12).

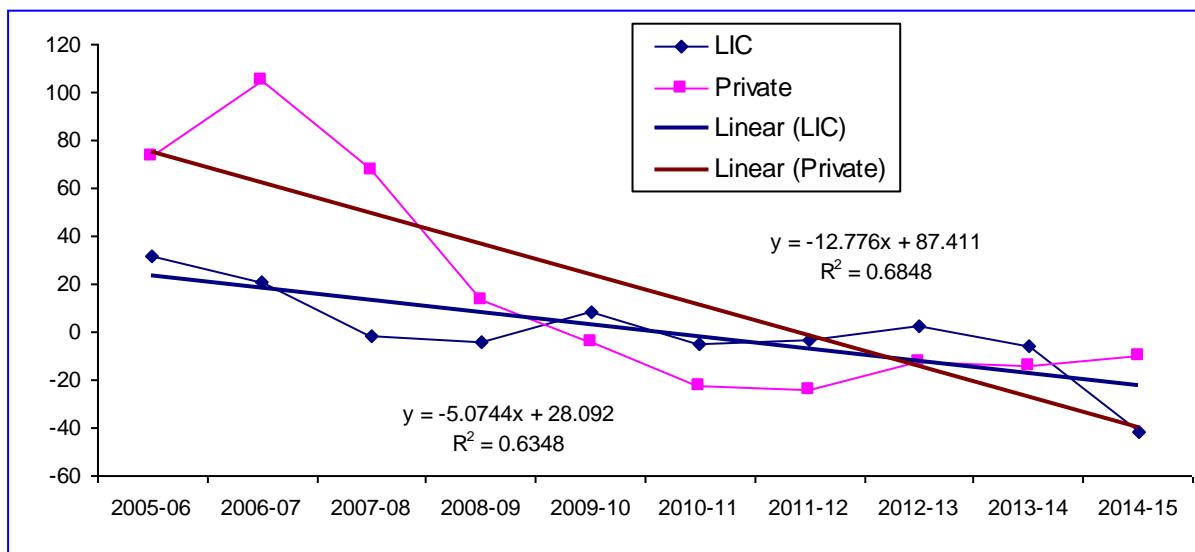
Fig. 2 : Trends of Growth rate for Numbers of New Policies Issued by LIC and Private Insurance Companies

Fig. 2 indicate that trend in growth of numbers of new life insurance policies issued by LIC as well as by private insurance companies is negative, as slop of trend line for the same are negative. It is also revealed that this negativity is more in for private insurance companies than the LIC of India.

Table 4 : Mann-Whitney U-test for New Life Insurance Policies issued by LIC and Private Insurance Companies

FY	LIC		Private Companies	
	AGR	Rank	AGR	Rank
2005-06	31.75	17	73.35	19
2006-07	21.01	16	104.65	20
2007-08	-1.61	12	67.41	18
2008-09	-4.52	9	13.19	15
2009-10	8.21	14	-4.32	10
2010-11	-4.70	8	-22.62	3
2011-12	-3.47	11	-24.04	2
2012-13	2.88	13	-12.28	5
2013-14	-6.17	7	-14.11	4
2014-15	-41.55	1	-9.79	6
Sum of Rank order		108		102
No. of Data		10		10
U-value			47	

Our Obtain value of $U = 47$ which is more than critical value of $U (23)$ at significance level 0.05, So, it can be said that difference in growth rate of New insurance policies issued by LIC and Private Insurance companies yearly is not significant at $p=0.05$.

c. Growth in Total Life Insurance Premium

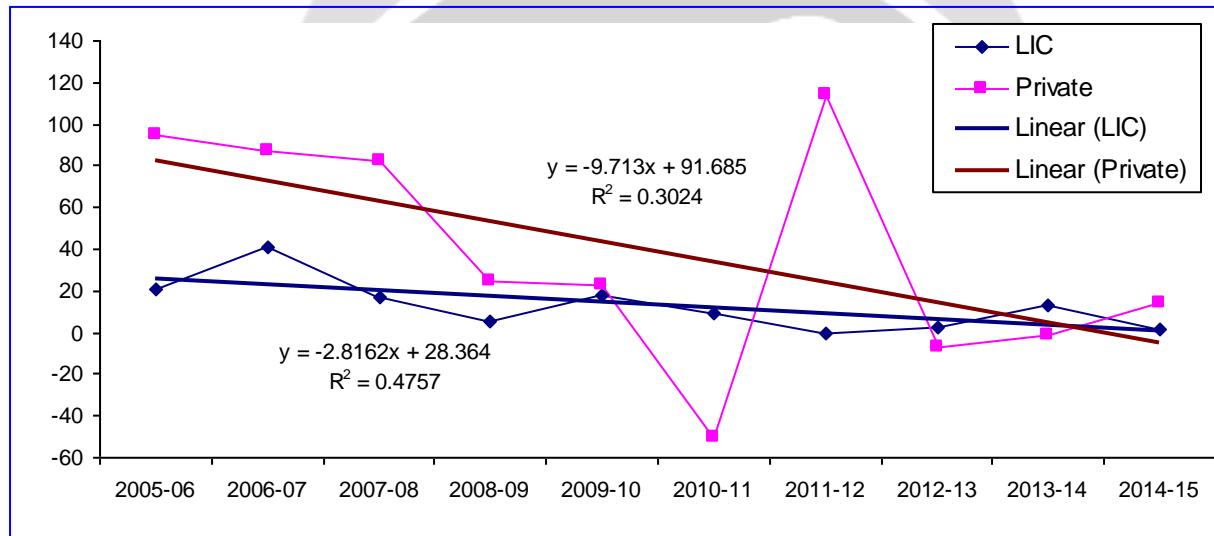
Table 5 indicates that the total life insurance premium of LIC of India was Rs. 90792.22 Crore in 2005-06 and it has increased to Rs. 239667.65 Crore in 2014-15. There is a contineous increase in total life insurance premium of LIC of India, except in FY 2011-12, when it has registered a negative annual growth (-0.29%). The total life insurance premium of private insurance companies was 15083.54 Crore in 2005-06 and it has contineously increased to 79369.94 Crore in 2009-10. After 2009-10, it has shown mixed trend in annual growth rate and at the end of FY 2014-15, the total life insurance premium of private insurance companies was Rs. 88433.49 Cr.

Table 5 : Details of Total Life Insurance Premium of Public And Private Insurance Companies
(Amount in Rs. Crore)

FY	LIC		Private Insurance Componies	
	Amount	AGR (%)	Amount	AGR (%)
2005-06	90792.22	20.85	15083.54	95.19
2006-07	127822.84	40.79	28253.00	87.31
2007-08	149789.99	17.19	51561.42	82.50
2008-09	157288.04	5.01	64497.43	25.09
2009-10	186077.31	18.30	79369.94	23.06
2010-11	203473.40	9.35	39385.84	-50.38
2011-12	202889.28	-0.29	84182.83	113.74
2012-13	208803.58	2.92	78398.91	-6.87
2013-14	236942.30	13.48	77340.90	-1.33
2014-15	239667.65	1.15	88433.49	14.32

Source: Annual Reports of IRD for FY 2005-06 to FY 2014-15

Fig. 3 : Trends of Growth rate of Total Life Insurance Premium of LIC and Private Insurance Companies



It can be observed from Fig 3 that the trend in growth rate of total life insurance premium for LIC of India as well as private insurance companies are negative.

To ascertain the significance of difference in growth rate of total life insurance premium for LIC and private insurance companies, Mann-Whitney U-test is carried out :

Table 6 : Mann-Whitney U-test for Total Life Insurance Premium of LIC and Private Insurance Companies

FY	LIC		Private Companies	
	AGR	Rank	AGR	Rank
2005-06	20.85	13	95.19	19
2006-07	40.79	16	87.31	18
2007-08	17.19	11	82.50	17
2008-09	5.01	7	25.09	15
2009-10	18.30	12	23.06	14
2010-11	9.35	8	-50.38	1
2011-12	-0.29	4	113.74	20
2012-13	2.92	6	-6.87	2

2013-14	13.48	9	-1.33	3
2014-15	1.15	5	14.32	10
Sum of Rank order		91		119
No. of Data		10		10
U-value		36		

Our Obtain value of U = 36 which is more than critical value of U (23) at significance level 0.05, i.e. it can be said that difference in growth rate of Total insurance premium of LIC and Private Insurance companies is non-significant at p=0.05.

RESULT AND DISCUSSION

- Trend in growth of numbers of new life insurance policies issued by LIC as well as by private insurance companies is negative, as slope of trend line for the same are negative.
- Trend in growth rate of total life insurance premium for LIC of India as well as private insurance companies are negative.
- These results clearly indicate that Life Insurance Corporation (LIC) still holds a significant majority of market share, though, private companies have established footholds.

H₀₁ : For N₁=10 and N₂=10, Obtain value of U for growth rate of fresh life insurance premium (47) is more than critical value of U (23) at significance level 0.05, So, it can be said that difference in growth rate of fresh insurance premium of LIC and Private Insurance companies is not significant at p=0.05. It proves the null hypothesis H₀₁ "There is no significant difference in the growth rate of fresh life insurance premium between public and private life insurance companies."

H₀₂ : For N₁=10 and N₂=10, Obtain value of U (47) is more than critical value of U (23) at significance level 0.05, So, it can be said that difference in growth rate of New insurance policies issued by LIC and Private Insurance companies yearly is not significant at p=0.05. It proves the null hypothesis H₀₂ "There is no significant difference in the growth of number of new policies issued among public and private life insurance companies."

H₀₃ : For N₁=10 and N₂=10, Obtain value of U (39) is more than critical value of U (23) at significance level 0.05, i.e. it can be said that difference in growth rate of Total insurance premium of LIC and Private Insurance companies is not significant at p=0.05. It proves the null hypothesis H₀₃ "There is no significant difference in the growth rate of total life insurance premium among public and private life insurance companies."

CONCLUSION

The life insurance plays a significant role in supplying long-term capital to national economy and accelerating the process of self generation of the gross production of national saving. The Indian life insurance system is having significant base on mixed economic system where in the public sector occupied a monopolistic position in life insurance business. Private players play a major role in life insurance business more efficient and customer friendly. They have also jolted and facing stiff competition from the LIC. It is therefore, by the expansion of population, share of private sector life insurance companies in fresh life insurance premium has increased from merely 26.48% in FY 2005-06 to 30.73% in FY 2014-15 and in issuing of new insurance policies from 10.92% in FY 2005-06 to 22.14% in FY 2014-15 is remarkable (Table 7).

Table No. 7 : Share of LIC and Private Life Insurance Companies

FY	Share in Total Fresh Life Insurance Premium		Share in New Life Insurance Policies issued		Share in Total Life Insurance Premium	
	LIC	PICs	LIC	PICs	LIC	PICs
2005-06	73.52	26.48	89.08	10.92	85.75	14.25
2006-07	74.32	25.68	82.83	17.17	81.90	18.10

2007-08	64.02	35.98	73.93	26.07	74.39	25.61
2008-09	60.89	39.11	70.52	29.48	70.92	29.08
2009-10	65.08	34.92	73.02	26.98	70.10	29.90
2010-11	68.84	31.16	76.92	23.08	83.78	16.22
2011-12	71.83	28.17	80.90	19.10	70.68	29.32
2012-13	71.36	28.64	83.24	16.76	72.70	27.30
2013-14	75.47	24.53	84.44	15.56	75.39	24.61
2014-15	69.27	30.73	77.86	22.14	73.05	26.95

The share of private Sector life insurance companies in total life insurance premium is also increased from 14.25% in Fy 2005-06 to 26.95% in FY 2014-15 (Table 7). It is clear evidence Private Insurance Companies have made their presence felt and over the years have achieved remarkable progress. There is a big opportunity to these companies in the Indian Life Insurance Sector. The companies have to bring out innovative products to suit the different requirements of the public. A healthy competition in the sector would be beneficial to both the players and also the public

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