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GLOBALIZATION AND GROWTH OF INDIAN LIFE INSURANCE INDUSTRY

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ABSTRACT

India, though one of the largest populated countries, spread of awareness and number of persons insured is very low in comparison with other developed countries. Globalization of Indian life insurance sector and entry of private players resulted positively in this sector. Companies selling life insurance products are now geared up to meet the challenges of increasing market share, meeting the customers expectation and providing the better services to customers. Penetration of life insurance products in India now has increased significantly along with many advantages to the customers. This study is a sincere effort to understand the impact of globalization on life insurance industry in India. Secondary data have been collected for this study. The outcome of this study is an insight into the changes occurred in Indian life insurance industry after globalization in 2000.

KEYWORDS

Globalization, Impact of globalization, Life insurance.

INTRODUCTION

A flourishing insurance sector is of vital importance to modern economy for every country. Firstly, it encourages the habit of saving and secondly, it provides a safety net to rural and urban enterprises and productive individuals. And perhaps most importantly, it generates long-term invisible funds for infrastructure building.

The life insurance industry, though existing prior to independence in India, it was nationalized in 1956 in order to spread life insurance much more widely and in particular to the rural areas (Brief history of insurance, 2010). But experiences showed that the ultimate objective remained unfulfilled due to the relatively low spread of insurance products in the country. The Life Insurance market in India is an underdeveloped market that was only tapped by the state owned LIC till the entry of private insurers. The penetration of life insurance products was 19 percent of the total 400 million of the insurable population (LIC India life insurance, 2010). The insurance was sold as a tax saving instrument prior to entry of private players. The Indian customers were under-insured with no flexibility or transparency in the products (Insurance 2010, p. 1).

For wide spread, efficient and quality functioning of the public sector insurance companies, capturing the untapped potential market and mobilizing long term financial resources, the Government set up an insurance returns Committee in April, 1993 under the chairmanship of R. N. Malhotra (Vijayakumar, 2004). The committee submitted its report to union finance minister in January, 1994 recommending a phased program of private sector entry and restructuring of LIC. Based on the recommendations of the Malhotra Committee report, in 1999, an autonomous body Insurance Regulatory and Development Authority (IRDA) was constituted with the aim of promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial insurance products and insurance market. The IRDA opened up the Indian insurance market in August 2000 for private players to enter, invest and operate their business. Private players were allowed ownership of up to 26% (History of insurance in India, 2009).

This study is an effort to understand the impact of globalization of Indian insurance industry and transformation in this industry over a period of time after globalization.

METHODOLOGY

The descriptive research design has been used for this study. The nature of data collected and its source of collection is secondary. Some of the secondary sources of relevant and required data are various internet sites, research journals, reports issued by insurance organizations and Insurance Regulatory and Development Authority, India.

LITERATURE REVIEW

Rao (2000) stated the year 1999-2000 as landmark in the history of Indian insurance industry. He further said that year 2007 is going to be another turning point for the industry. According to him, detariffication from January 2007 will bring a lot of changes in the non-life industry. The insurance industry will have to play an important role by providing many other products for the poor.

Vijayakumar (2004) argues that opening up of the insurance sector will foster competition, innovation, and product variations. However, in this context one has to consider various issues at stake including demand for pension plan, separateness of banking from insurance sector, role of IT, possible use of postal network for selling insurance products and above all, the role of Insurance Regulatory Authority.

Jain (2004) revealed that liberalization of Indian insurance industry has done wonders to raise the insurance occupation to the status of a career with bright future. He pointed out that these changes in insurance industry will be capable of bringing corrections to average mindset, particularly of younger generation in India.

'Transformation of insurance in India' (2004) indicated that during the last three decades, global insurance penetration as a percentage of the gross domestic product has more than doubled from around 3.5 per cent in 1970. The insurance sector thus has grown more strongly than the overall economy. Insurance is one sector whose contribution to GDP has been quite significant.

Sukla (2006) reviewed that in last six years into competitive market, the Indian insurance industry exhibited a healthy growth trend of new business and market share. He also viewed that with liberalization, India is penning the script of "insurance convergence (catch up) and not insurance divergence (falling behind)".

Jagendra (2008) pointed out the development of Indian life insurance industry during the globalization phase. He also mentioned about the reasons of high awareness, low penetration, and untapped potential of the industry.

Rao (2007) reported that insurance is a vital economic activity and there is an excellent scope for its growth in emerging markets. He also said that opening up of the insurance sector has raised high hopes among people both in India and abroad.

Sabera (2007) indicated that Government decisions to liberalize the insurance sector has allowed foreign players to enter into the market and start their operations in India, which has resulted in restructuring and revitalizing of public sector companies.

IMPACT OF GLOBALIZATION

According to hand book on "Indian Insurance Statistics 2007-08" published by IRDA, during past nine financial years after globalization (2001-02 to 2008-09), 20 private sector insurance companies (Table Number – 1) entered the life insurance market in India to make the total number of insurers as 21 including one state owned insurance company Life Insurance Corporation (LIC).

TABLE – 1: ENTRY OF PRIVATE PLAYERS IN INDIAN LIFE INSURANCE INDUSTRY

Sl. No.	Insurers	Year of Operation
1.	HDFC Standard Life Insurance Co. Ltd.	2000-01
2.	Max New York Life Insurance Co. Ltd.	2000-01
3.	ICICI-Prudential Life Insurance Co. Ltd.	2000-01
4.	Birla Sun Life Insurance Co. Ltd.	2000-01
5.	Tata-AIG Life Insurance Co. Ltd.	2000-01
6.	Om Kotak Life Insurance Co. Ltd.	2001-02
7.	SBI Life Insurance Co. Ltd.	2001-02
8.	ING Vysya Life Insurance Co. Ltd.	2001-02
9.	Allianz Bajaj Life Insurance Co. Ltd.	2001-02
10.	Metlife India Insurance Co. Ltd.	2001-02
11.	Reliance Life Insurance Co. Ltd.	2001-02
12.	AVIVA	2002-03
13.	Sahara Life Insurance Co. Ltd.	2004-05
14.	Shriram Life Insurance Co. Ltd.	2005-06
15.	Bharti AXA Life Insurance Co. Ltd.	2006-07
16.	Future Generali Life Insurance Company Ltd.	2007-08
17.	IDBI Fortis Life Insurance Company Ltd.	2007-08
18.	Canara HSBC OBC Life Insurance Company Ltd.	2008-09
19.	Aegon Religare Life Insurance Company Ltd.	2008-09
20.	DLF Pramerica Life Insurance Co. Ltd.	2008-09

Source: Hand book on Indian Insurance Statistics 2007-2008, IRDA.

The entry of private players in the industry has brought sea change to Indian life insurance industry. In the post globalization period, the life insurance industry in India has seen a high growth. Growth of life insurance products can be seen through the following table – 2:

TABLE – 2: PENETRATION OF LIFE INSURANCE PRODUCTS

Year	Life Insurance Penetration (ratio of premium in US \$ to total population) (In %)
2001	9.1
2003	12.9
2005	18.3
2007	40.4

Source: Hand book on Indian Insurance Statistics 2007-2008, IRDA.

Surprising and exceptionally high growth in premium penetration measured in monetary value to the total population of India during above mentioned six years that is from mere 9.1% to 40.4% clearly indicates the effect of globalization on life insurance industry in India.

The significant growth of this industry is also visible through the table – 3 about the growing number of life insurance offices of some major players of this industry year wise. It can be clearly interpreted that the private players have been expanding their business every year since their inception in Indian insurance market.

Looking at the number of new insurance offices opened by all private players every year, which has grown with almost 200% growth rate, it can be concluded that private players are all set to penetrate the Indian insurance market in India.

TABLE – 3: NUMBER OF LIFE INSURANCE OFFICES (As on 31st March)

Insurers	2008	2007	2006	2005	2004	2003	2002	2001
Aviva	213	140	110	50	22	12	3	
Bajaj Allianz	1007	877	567	153	49	33	17	1
Birla Sunlife	538	148	97	53	41	29	19	2
HDFC Std	569	448	150	90	26	18	4	
ICICI Pru	1958	583	175	109	69	29	14	6
ING Vysya	265	183	68	38	26	16	4	
Reliance Life	745	159	157	80	48	35	17	
SBI Life	200	138	46	31	19	10	5	1
Tata AIG	283	89	72	40	26	13	6	3
Private (Others)	613	307	203	160	90	59	27	0
Private Total	6391	3072	1645	804	416	254	116	13
LIC	2522	2301	2220	2197	2196	2191	2190	2186
Industry Total	8913	5373	3865	3001	2612	2445	2306	2199

Source: Hand book on Indian Insurance Statistics 2007-2008, IRDA.

Still the state owned insurance company LIC has largest number of offices and wide coverage all over India with highest market share in this industry. Some of the major players along with their market share in financial year 2007-08 are:

TABLE – 4: MARKET SHARE OF MAJOR INSURANCE COMPANIES
(Measured as % of premium earned by respective insurer to total premium earned)

Insurance companies	Market share 2007-08 (%)	Market share 2001-02 (%)
LIC	74.39	99.46
ICICI Prud.	6.74	0.23
Bajaj Allianz	4.83	0.01
SBI Life	2.79	0.03
HDFC	2.41	0.07
Birla Sun Life	1.63	0.06
Max NY Life	1.35	0.08
Tata AIG	1.02	0.04
Others	6.04	0.02

Source: Hand book on Indian Insurance Statistics 2007-2008, IRDA.

The aggression and wider reach by the private players are very competitive and have introduced competition to the state owned insurance company LIC, which were enjoying monopoly of the insurance market prior to globalization in India. Since the entry of the private players in the market, the industry has seen new, innovative and competitive steps taken by the players in the sector. The new players have introduced wider variety of products and improved the service quality of the insurance. As a result LIC down the years have witnessed downfall in its market share. LIC's market share was distributed among the private players. Though LIC could hold 74.4% of the life insurance sector by 2007-08 and have been enjoying the market leadership, but its market share has decreased from 99.5% since the year of entry of private players. And the upcoming nature and aggressive marketing of these private players will give more competition to LIC in the near future.

The slowdown in market share of LIC can also be seen through table – 5 about comparing the number of new policies issued by LIC and private players over a span of six years after globalization.

TABLE – 5: NEW POLICIES ISSUED (figures in bracket indicate the growth rate)

Insurer	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
LIC	37612599 (-1.61)	38229292 (21.01)	31590707 (31.75)	23978123 (-11.09)	26968069 (9.87)	24545580 (96.75)
Private sector	13261558 (67.40)	7922274 (104.64)	3871410 (73.37)	2233075 (34.62)	1658847 (101.05)	825094 (3.25)
Total	50874157	46151566	35462117	26211198	28626916	25370674

Source: Hand book on Indian Insurance Statistics 2007-2008, IRDA.

By comparing the growth of number of policies sold by private players and state owned insurer, it can be easily identified that private players are penetrating the market with exceptionally high pace.

Not only by numbers mentioned in above tables, the change or impact in Indian life insurance industry can be seen through many qualitative aspects such as introduction of more varied products, customized and flexible products, transparency in products, speed and efficient processing, availability of more information, easy and fast mode of premium payment and settlements of claims to beneficiaries, and overall improved and efficient process to serve the customer in more satisfactory ways.

CONCLUSION

From the above said figures, it is clear that private insurance companies are all set to penetrate the untapped Indian insurance market and capture it with high pace. Figures related to growth of life insurance market penetration support the same. A large number of companies have jumped into the field with competitive pricing, services and process, which has not only changed the industry numerically and more policies sold but also in dimensions of competitive pricing, better and fast services, and personal security and so healthy life styles. It can also be concluded that objectives of globalizing this industry is being fulfilled in terms of safety to rural and urban population, encouraging savings, and utilizing the fund in creating long term funds for infrastructure development.

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