Chapter VII

Summary of Recommendations and Conclusions

7.1: Introduction

The history of Indian life insurance business is very vast and wide. Though the life insurance in its modern form came to India in 1818 for the purposes of providing life insurance benefits to the English widows residing in the erstwhile Calcutta (now Kolkata) by the foreign life insurance companies but the conception of insurance in general and life insurance in particular started from the age of Aryans. From 1870 to 1900 AD has been designated as an era of foreign life insurance companies and the business of these life insurance companies mainly centered on the big cities of India. With the beginning of the swadeshi movement, India witnessed the growth of few domestic life insurance companies, promoted and managed by the Indians, to provide life insurance cover to fellow Indians. Both, Indian and foreign companies operated in the Indian life insurance market until the life insurance business was nationalised by the government in 1956 with the formation of Life Insurance Corporation of India (LICI) through the pronouncement of LICI Nationalisation Act, 1956. The basic objectives behind the nationalisation were to stop the malpractice evolved during the last few decades in the life insurance industry and to reach the poor. It also aimed to cover the rural areas with the insurance protection and thereby to channelise the savings of the common people in the desired sector of the planned economy. Since September 1956 to January 2000, LICI enjoyed absolute monopoly power so far as life insurance business is concerned in our country. If we analyze the performance of the LICI in respect of spread of life insurance in India, especially in the rural areas, LICI did a commendable job. But in respect of penetration and density (both *penetration* and *density* are internationally accepted measure of development in insurance sector) LICI is far behind the international standards. It was felt that the prime objective of nationalisation was not contented with the effort of LICI.

In the line of its new economic policy (implemented in 1991), the GoI decided to establish a committee under the chairmanship of (late) Dr. R.N. Malhotra, the ex-governor of RBI, for bringing effective reforms in the Indian insurance sector. The committee in its report (submitted in 1994) specifically opined for the opening up of the insurance market in front of private domestic and foreign insurance companies. The committee argued that in spite of enjoying the monopoly power there was low penetration of life insurance in India. The levels of satisfaction of customers were absolutely lower and the premium rates offered by the LICI were much higher in comparison to other insurance companies operating in different parts of the world which ultimately led to the exploitation of the policyholders. GoI accepted the recommendations of the Malhotra Committee on principle and after a prolonged debate in both houses of the Parliament, the Insurance Regulatory and Development Authority (IRDA) Bill was passed on 7th December 1999 which got the assent of the President of India in the month of January 2000. The IRDA Act, 1999, repealed the monopoly of the LICI in the life insurance business and a lot of private life insurance companies entered into the Indian life insurance market though the Act stipulates the maximum foreign equity limit to 26%. Till date (as on 31st March, 2008) there are 21 private life insurance companies operating in the Indian life insurance market providing life insurance cover to the masses.

Before the nationalisation of the life insurance sector in 1956, life insurance companies were governed by The Indian Life Insurance Companies Act, 1912, and Insurance Act, 1938. With the establishment of LICI, both the Insurance Act, 1938 and LICI Nationalisation Act, 1956 became operative. In 1999, when market was opened once again in front of the private players, the Insurance Act, 1938 was reinstated with certain modifications as the Insurance Regulatory and Development Authority (IRDA) Act, 1999. Whatever was not mentioned in the IRDA Act, referred back to the earlier Insurance Act, 1938. This vicious-circle journey (*Foreign life comp. ---to-- Private Domestic Companies —to—nationalisation of life business (LICI) --and-- back to Private domestic/foreign companies*) of the life insurance industry in India raises certain questions in our mind.

(1) Does the reform in the life insurance sector (1999) bring the desired results in this sector? and,

(2) Do we need more reforms in this sector?

In this background, the present study has assessed the impact of the liberalisation policy on the development of this insurance sector in India. The development of this sector has been measured in terms of certain well accepted indices like insurance density, insurance penetration, investment in social sector etc. To do this, the present study will formulate and calibrate a hypothetical model to measure the impact of life insurance sector reforms empirically.

This study will also seek to identify the factors that have significant bearings on the development of life insurance sector in India. The determining factors of life insurance demand vary from country to country. The plausible set of such factors have not yet been identified for India in any published study. The present study will investigate into this field and seek to bring out the variables that have been directly or indirectly influencing the development of life insurance business in India in the post reform era.

The present study will seek to answer the following questions:

1. What is the effect of the opening up of insurance sector on the density and penetration level of life insurance business in India?
2. What is the effect of this reform process on the spread of insurance business in rural India?
3. What is the effect of this reform on the introduction of new types of policies in India?
4. What is the effect of this reform on the prices of life insurance policies in India?
5. How far does the liberalization era of life insurance affect the savings behaviour in India?
6. What is the effect of liberalization on the investment of insurance fund in infrastructure development in India?
7. What is the impact of this liberalization on generating new employment in India?

8. What are the perceptions of common people towards new private life insurance companies?

9. Is the present level of liberalization enough to bring efficiency in the life insurance market in India or we need more reforms initiative in this sector?

10. What are the factors that govern the insurance demand in India in the post-liberalised era?

7.2: Findings of the study

The study has been carried out with a broad objective to analyse the growth and development of the Indian life insurance industry with the framing of the above mentioned questions. The major findings of the study are summurised below.

7.2.1: Effect on Penetration and Density level in India

- The study found a visible structural change in the penetration level just after the life insurance sector was opened to the private domestic and foreign players. After 2000, the level of penetration goes up from 1.39% to 4.10% at the end of 2007-08 financial years. So it can be concluded that the reforms has got a positive impact on the level of life insurance business in India which has improved India's share of life insurance business in the world from a very dismal level to a hopeful one.

- Study also finds that there has been a substantial increase in the per capita consumption (density) of life insurance in India after the opening up of the life market. Density level was at US $ 6.2 in 1999 and the same improved to US $ 40.8 in 2008. So there has been a sharp rise in the consumption level of life insurance products after 1999.

7.2.2: Spread of Life Insurance Business in Rural India

In spreading the umbrella of life insurance in rural areas, the study brings the following out come:

- Total number of branches (rural and urban) increased from 2199 to 8913 all over India.
- The growth of rural branches improved in the post reform era, especially in the last two years. In 2007 out of total branches of all insurers operating in India, 24% was from rural areas which increased to around 32% in 2008.
- In 2007-08, the growth in the total rural branches (private companies and LICI) of life insurance companies is more than 110 % (from 1318 to 2797 branches).
- Rate of growth of private life insurers in the rural areas outpaced LICI. The rate of growth of spreading branches by the private companies in rural area in 2007-08, was almost 250% (from 546 to 1902 branches), whereas for LICI it was just around 16% (from 772 to 895 branches).
- The branch expansion of LICI has been almost stagnant throughout the last ten years and improved marginally due to the competition. But total branch net work of all the private life insurers crossed the network of LICI in 2006-07 financial years and now they have more than 2.5 times branch network than LICI to tap the potential India life market.
- The study also found that due to obligatory clause of IRDA in respect of rural business by every individual life insurers, all the insurers were adhering to the minimum requirement directed by the IRDA.

Therefore, we can say that the reforms in the life insurance sector have improved the rural penetration of life insurance consumption by way of allowing private life insurers to tap the rural market along with LICI. Private life insurers are now trying to penetrate the potential rural market by establishing new branches in the rural sector and they have out lined the LICI in this respect.

7.2.3: The Introduction of New Types of Policies in India

This study finds that since 2000, life insurance industry has seen some innovations in the product design. Now insurers offering products which suits the customer's need and offers benefit to the customers in terms of premium payment options, returns and requirements. Focus has been shifted to customized products to suit all sections of population so that people can take policies according to their needs. The following are the main innovations in the life market,

- To meet the investment requirement of the customers, insurers are now offering new Unit Linked Insurance Plans (ULIPs).
- New pension schemes have been introduced in the market by different life insurance companies with extra benefits.
- Now Unit Linked Pension Plans are also available in the market.
- Insurers are now offering newly designed micro-insurance products to suit the needs of the rural and urban poor.
- Improved annuity plans with rider, customized education plans are available in the market along with traditional improvised money back policies.

Due to the opening of the life insurance market, many insurers came to India to offer array of products to woo the investors. Competition among the insurers to get the share of the life market compels them to offer newer products to attract customers. Today Indian life market is flooded with ULIPs, new pension schemes, health insurance policies, single premium products and micro insurance products along with the introduction of variety of term insurance plans and few special plans for women, retirement and total risk cover for families which were absent in the pre-reform period. The role of IRDA is very important in this regard. It is found that the IRDA has done admirable job in protecting the interest of the policyholders. When required, IRDA intervened and clarified the regulations, and in certain cases, it has fined the life insurance companies who had not maintained the rules and regulations of IRDA Act, 1999. Role of IRDA in developing and implementing micro-insurance is also laudable as it has included the micro-insurance in the obligatory and mandatory requirements of the insurers which improves the micro-insurance development.

7.2.4: The Prices of Life Insurance Policies in India

In its report, Malhotra Committee cited that the LICI, while enjoying monopoly, charge higher premiums for its policies than the other insurers operating in other developing markets. One of the the rationale behind the reforms initiative was that the opening up of the insurance sector would create a competition among the insurers and ultimately consumers will be benefited with the lowering of premium cost offered by the different insurers to capture the market share. The study found that after opening of the life insurance market in India, insurers started offering different products with added advantages to attract more customers. Due to the added features (Riders) it has become difficult to compare the cost structure of different polices with different offerings. So we compare only simplest form of term life insurance policies offered by the insurers in the market and found that.

- For similar kind of products different life insurers are charging different premium rates.
- Few companies are charging reasonably higher premiums.
- It is the same life insurance company who charges less in the life market.
- The maximum minimum ratio of premiums is highest in case of 15 years term policies at 2.04 and lowest in case of 5 years term policies at 1.71.
- The gap between max/min ratios is coming down.

The study reveal that the due to aggressive marketing of their products with strong sales force few private life insurers are charging higher premium rates. At the same time SBI life Insurance Company charging the lowest premiums most of the times in case of term life policies are concerned. With more stiff competition among the life insurance companies (with emergence of more life insurance players in the market)and increasing awareness of the common people, the difference between highest premium and lowest premium is expected to come down and eventually be at the same level. It is to be noted that the insurance companies does not enjoy the free pricing system in India.

7.2.5: The Savings through Life Insurance in India

This study unveil that the financial savings as a percentage of the total household savings improved much faster after the life insurance sector reforms and the share of life fund to the total financial savings increased considerably. This is due to the fact that reforms in the life insurance sector provide an opportunity to invest in such a product (ULIPs) through which investors can get the benefit of booming stock market along with life risk cover which mutual funds were not able to offer. People find new customized ULIPs are better proposition for their investments than stock market (highly volatile with out life risk cover), mutual funds (no life cover) and pension funds(low return). The main outcomes are,

- People are saving more through ULIPs than PF, MF and direct investments in stock market.
- Newly designed life insurance products are better option as an investment before the savers.
- The higher expected return out of the ULIPs made the common investors to invest more in ULIPs instead of investing funds into secure long term pension funds and government securities.
- ULIPs are the main driver of savings instrument in the life insurance market and it contributes more than 70% of the total life business in India as on 31st March, 2008.

7.2.6: The investment of insurance fund in infrastructure development in India

The investments of the life insurance companies are guided by the specific regulations provided in the IRDA Investment Regulations, 2000, which modified the Section 27 of the Insurance act 1938 in conformation with the objectives of improving confidence among the potential policy holders and diverts the funds into the infrastructural development. The investments in the government sector and other sectors are specifically mentioned. The study finds that the insurers invest in accordance to the IRDA Act, 2000. It is found that the investment by the life insurance sector in the infrastructure/social sector has increased substantially from around Rs. 33,000 crore in 2002-03 to Rs. 68,600 crore in 2007-08. IRDA strictly regulates the investments regulations so that the interests of the common investors are protected.

7.2.7: Generating New Employment in India

It was argued that reforms in the life insurance sector would bring more and more life companies which will generate employment opportunity through direct employment (in the form of managerial and office staffs and most importantly issuing licenses to the life insurance agents) as well as through generating new employment opportunities by mobilizing huge savings for the economy for longer term. The study has noted that the life insurance industry,

- Added 53,332 employees directly during the second quarter of financial year 2008-2009.
- The total numbers of employees of the industry has increased to more than 3 lakhs.
- The total number of individual life agents of the industry at the end of 2007-08 financial year increased to more than 25 lakhs from around 116,000 life agents in the financial year of 2001-02.
- Indian life insurance industry has employed more than 28 lakhs people since the reforms have been implemented in the year 2000.
- The life insurance industry has created opportunities in the form of investments in other sectors with the help of mobilization of long term savings.

Since the life insurance industry is at its preliminary stage of development, it is expected that more life companies will enter into the Indian market and penetrate the Indian population with its man power which will create new job opportunities.

7.2.8: The perceptions of common people towards new private life insurance companies

The reforms in the life insurance sector have been taken by the GoI due to the fact that reforms will bring better services to the people with attractive products to invest at a *competitive price. It is almost ten years the reforms have been taken place in Indian life* insurance market and it is important for us to know, how this reform has been perceived by the common investors' in India. Whether people are satisfied with the products and services of the private life insurance companies or not? Do the people want to invest in private life insurance companies in India or not? To know the above quarries, a non-probability convenience sample of 300 respondents consisting different age groups, educational levels, income groups and religions of policy and non-policy holders have been collected to get the primary data. The study unearth the followings,

- The awareness among the people about the benefits of life insurance is almost 100% in India (99%).
- 96% people know about the presence of private life companies operating in India.
- 59% of people believe that the products of private life insurance companies are *more attractive* than the products offered by the LICI.
- About 52% people think that the *services* provided by the private life insurance companies are *better*.
- Around 60% of people think that the private life insurance companies are *serving the urban populations* only.
- 57% people think that it is *not safe* to invest in the private life insurance companies at this juncture when world financial crisis is on.
- Only 33% people in India are *positive* about the fact that they can serve the Indian market in long run.

- The most important finding is that, 62% people are ***not familiar*** with the IRDA and its role and most of them don't even know the existence of the IRDA.

7.2.9: Relationship between Reforms and the growth of life insurance business in India

Till now we have discovered that the post reforms period in the life insurance industry is characterized with the major development of the life insurance penetration and density level in India. Reform has encouraged life insurers bringing new products before the consumers with additional benefits along with better services and coverage. The reforms also improved the level of savings mobilization through life insurance products in India. But this improved performance of life insurance industry may not only because of reforms in the life insurance sector. This may be due to some other reason/s, i.e., improved macro-economic conditions in India, or for some other reasons. Unless we know empirically the fact that reforms in life insurance sector improves the development of the life insurance industry itself, we can't come to a conclusion whether the reforms have brought any development in the life insurance industry. For this purpose we have constructed a composite index to quantify life insurance sector reforms for studying the relationship between reforms and the development of life insurance industry. The study uncovers that,

- *There is a stable long run relationship between insurance reform* and the development in the life insurance sector in India;
- In short run life insurance reforms improve the life insurance development in India; and
- There is a bi-directional causal relationship between reforms and development in life insurance sector.

Now, we can state that the life insurance sector reforms have improved the overall development of life insurance market in India and we can expect more development if further reforms are initiated in this respect. The development in the life insurance market itself will initiate more reforms in this sector.

7.2.10: The Determinant Factors of Life Insurance Demand in India

The present study has tried to examine the factors that have significant bearings on the development of life insurance and seek to bring out the variables that have been directly or indirectly influencing the life insurance demand in India in this post reform era. The major findings of the study are as follows.

- Income (Real Personal Disposable Income) and Financial Development (FD) are the most *significant and positive* economic factors in driving the life insurance demand upward in India.
- Education (EDUN) is found to be the most important factor among the non-economic factors which is significant but *negatively* associated with the life insurance demand.
- Inflation (WPI) is *significant and positively* related with the life insurance demand in India.
- Interest rate (INTRS) of alternative products is *significant and negatively* related with the demand for life insurance in India.

7.3: Concluding Remarks

It can be concluded finally that the opening up of insurance market in general and life insurance market in particular has brought high positive results in the overall growth of the insurance sector of our country. It has brought positive results in all spheres namely in penetration and density level of life insurance sector, savings mobilization through life insurance, newer product designs with convenient payment options, better services to the policy holders etc. the opening up of the life insurance sector has allowed foreign insurance companies to participate in the Indian market tying up with their Indian counter parts as on today maximum 26% of the foreign equity has been allowed by our government. This has also helped the insurance sector in a considerable way to improve the efficiency level of new players as well as the player which is owned by the government (LICI).

Apart from this overall development, Indian life insurance sector needs to improve a considerable way in certain cases. The most important aspect is the coverage of life insurance through out our country. In spite of development achieved in the last few years of liberalised regime in the life insurance sector, the rural life insurance penetration (27%) is still too poor. According to a Paper **`Rural India and Its New Investors'** by ASSOCHAM, (www.assocham.org), July 2008,at present 8-10% rural households are covered under life insurance schemes and remaining 90% can be targeted for new innovative insurance schemes. Rural investments are limited to their available option post offices and a few limited commercial banks rural extension counters. As per estimates of ASSOCHAM, over 700 million rural populations lived in India's villages out of which approx. 200 million rural populace have reasonable per capita income due to their double income from agriculture and non-agriculture sources. According to international consultancy firm Celent, (www.celent.com), the rural life insurance market will grow to a potential of US$ 1.9 billion by 2015 from the current US$ 487 million. India's untapped rural market holds tremendous growth opportunities for life insurance companies.

Now the question has come up whether the govt. should allow more foreign equity (proposed 49%) in the insurance sector or not ? it can be opined with out any hesitation that more and more foreign participation of equity will be helpful for our insurance sector to become more vibrant and effective. Life insurance business has a long gestation period and globally, companies begin to taste profits by the seventh or eighth year. There are several costs during the initial years, such as setting up a tied agency, branches and infrastructure as well as building the productivity of managers and advisors. New business comes with its costs, and insurers have to put away a portion of the premium as reserves, commission and management expenses. Given the high industry growth rate, more capital infusion would be needed in India. Sometimes, it becomes difficult to infuse capital from the domestic market and then foreign life insurers will comes into play. If foreign equity of 49% allowed in Indian life market, the difficulty in raising capital would be minimize especially after the recent financial meltdown and new demand of the market will be meet satisfactorily. Moreover, this hike in the equity capital participation will attract other big international life insurers (MNCs) in India as the market is still underserved. This will create unbending competition among the existing and new life insurers which will bring down the premium rate disparity which has been observed in this study much faster than ever before and ultimately consumers will be benefited. This study also finds (empirically) that the reforms in the life insurance sector in India will bring more development in the life insurance business. In fact both, life insurance reforms and life insurance development help each other to improve themselves.

But at the same time strict adherence to the rules and regulations laid down by the IRDA from time to time must also be followed to ensure that the foreign investors cannot easily manipulate the market dominance and the interest of the common investors are protected. Therefore, the role of IRDA will be more than ever important in the emergence of more developed life insurance market in India. This study finds that the recent financial meltdown has flattened the confidence level in the investors in India. With the global financial meltdown taking a heavy toll on our stock markets, investors' appetite for life insurance has also taken a beating as the life insurance industry was mostly driven by the ULIPs. In 2008-09, the financial year that ended in March 31, 2009, India's life insurance industry written grossed total new premium of Rs 87,107.62 crore, 6 per cent lower than 2007-08. This study also looks into the fact that the 57% people think that investing in foreign life insurance companies are not safe. And only 33% think that private foreign players can serve in the long run. Most surprising fact is that majority of the people (62%) are not familiar with the IRDA and its role in the life insurance market. People need to be aware of the functioning of the regulator, IRDA, and its role in developing the life insurance industry. Even, IRDA needs to ensure that the insurers are adhering to the rules and regulations and take strict action/s against any malpractice.

7.4: India's present situation

India is fast emerging on the world map as a strong economy and a global power. The country is going through a phase of rapid development and growth. In recent years, India has been one of the fastest growing economies. Since 2004, the average GDP growth rate is closed to 9%. With the higher rate of growth India will be at per with

France and UK and little smaller than Germany [Sinha (2004)] in respect of GDP by 2020. All the vital industries and sectors of the country are registering growth and thus, luring foreign investors. And insurance sector is one of them. Presently, India is globally the fifth largest life insurance market in the emerging insurance economies, and its insurance market is growing at 32–34 per cent annually. By 2030, India's population will exceed China's and currently, one in five people in India is aged between 15 and 24. India is one of the youngest countries compared to other developed countries in the world. According to the Swiss Re Economic Research and Consulting, India's insurance market will remain wide open and continue to attract insurers as the strong growth in the insurance sector will sustain for 30-40 years before market reaches saturation as income elasticity starts to decline. With a huge population and large untapped market along with a rising middle class population of around 350 million (in comparative terms it amounts to much more than the entire population of the United States) insurance happens to be a big opportunity in India. Therefore, the market is well conducive for growth and development and we need more insurers to penetrate all over India. But the demographic indicators show that India is going to witness a new demographic change in the coming decade. With a lower fertility rate along with higher life expectancy there will be a gap between demand of pension products and the supply of such products as in India the pension reforms are yet to start. The bill regarding the pension is still hanging in the Parliament. There is a considerable scope for the development of new pension schemes by the life insurers in India and further research is endeavor in this regard from the researchers.

7.5: Suggestive Measures

Based on the observations of this present study and on the present market conditions in India, this study framed the following recommendations for the development of the Indian life insurance industry,

(1) The GoI should allow up to 49% foreign equity in the insurance sector. This will increase the competition in the market and solve the capital requirement problem.

(2) Minimum obligatory targets in the rural and social sector should be increased as the insurers try only to accomplish the stipulated required coverage;

(3) Micro insurance schemes should be keeping outside the ambit of the rural and social obligations of the insurers and a new micro-insurance obligation rules should be introduced by the IRDA to cover the real needy.

(4) There is an urgent need to improve the awareness of the common people about the functioning of IRDA which will improve the confidence level of the common investors. To do so, it is highly recommended that the IRDA along with the existing insurers should take the responsibility to educate the people about the role of IRDA through print advertisement, TV advertisement, hoardings, campaigning and through the oral communication of the life insurance agents.

(5) IRDA should closely monitor the operations of the life insurers and to see whether they comply with the rules and regulations of IRDA Act, 1999.

(6) It is found that the agents/advisors sometimes mislead the investors by not telling truth about the product's all features. It is highly recommended that inducting more and more agents is not enough in the industry; we need trained life insurance agents. For this reason IRDA should monitor the quality of trainings imparted to the life agents/advisors. More quality training institutes are required for this purpose.

(7) The development of the distribution channel into the rural areas is very important for the overall development of life insurance in India. Therefore, role of post offices is very important in this regard. Due to the huge network base in rural India and other specialized advantages, it is recommended that post offices should be employed as means of distributing and selling life insurance products (especially micro-insurance) of different life insurers throughout the country.

(8) The board of LICI should be given more and more autonomy and they should be held accountable for the performance and there is a need to stop the sovereign guarantee available to the policyholders of Life Insurance Corporation of India (LICI) by the central government under the LICI Act, 1956. This would place LICI at the same platform with the private life insurers, and

(9) Corporate culture should be introduced in the LICI. Being a corporate entity, LICI would be in a better place to regain its market dominance and it will also help the organisation to improve its products and services.

Life insurance premium rates are likely to drop over the next few months due to longer life expectancy, with a new mortality and morbidity table expected to be in place by the fourth quarter of 2009 to replace the current one, which is of 1994-96 vintage. The Mortality and Morbidity Investigating Centre (MMIC), an affiliate of the Institute of Actuaries of India (IAI), plans to publish the mortality table by October, 2009. This will certainly increase the consumption of the life insurance policies in the coming months. Presently, two important amendment bills relating to the insurance sector reforms are pending in the Parliament. The two bills are LIC (Amendment) Bill (seeking to raise LICI's equity capital to Rs.100 crore from Rs.5 crore) and the Insurance (Amendment) Bill, proposing to amend the Insurance Act 1938 and IRDA Act, 1999. One of the important amendments proposals in the Insurance (Amendment) Bill is the increase in foreign investment limit to 49 percent from the present level of 26 percent. The other proposed amendments are, allowing foreign re-insurers, reducing the start-up capital limit for pure health insurance companies to Rs.50 crore from Rs.100 crore; and enabling the IRDA to stipulate the expense and commission limits. In an active market conditions, it is better for the regulator to prescribe limits rather than giving exemptions to individual companies. With a more stable new government in the centre, the capital market is expected to revive from the recent meltdown and the unit-linked insurance policy (ULIP) segment may grow again and we expect the amendment bills to be passed very soon as it was this government that introduced them earlier in the Parliament. The combined effort of GoI, IRDA, all the insurers and the Life Insurance Council is very important in developing the life insurance sector in India.