Library Progress International *Print version ISSN 0970 1052*
Vol.44, No.4, Jul-Dec 2024: P. 492-504 *Online version ISSN 2320 317X*

Original Article *Available online at www.bpasjournals.com*

Insurance Industry In India: An Overview

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How to cite this article: Vivek Srivastava ,Shweta Singh (2024). Insurance Industry In India: An Overview. Library Progress International, 44(4), 492-504

Abstract
Insurance serves as a safety mechanism provided by insurers to policyholders, facilitating the sharing and management of risks to minimize potential losses. Its significance lies in its contribution to both national economic stability and international trade. Insurers gather substantial capital, which is subsequently invested in the economy, fostering growth. This highlights a positive relationship between economic development and expenditures in the insurance sector. Insurance business models are predicated on the inherent uncertainty present in all aspects of life, with organizations calculating risk ratios to determine appropriate premiums based on projected costs and desired profits.
The current study provides a detailed overview of the insurance sector in India. It starts by defining insurance, followed by a historical perspective on its evolution within the country. Different types of insurance services available in India are discussed, along with an analysis of private life insurance companies. Key growth drivers of the insurance industry are explored, and the study also incorporates Porter's Five Forces analysis before concluding.
Key Words: insurance Sector, private life insurance companies, Porter’s five forces, risk.

1.1 Introduction:
The present study gives an exhaustive description of insurance sector in India. It begins with the concept of insurance followed by the history of insurance in India, types of insurance services in India, industry analysis for private life insurance companies in India, drivers to the growth of insurance industry in India, Porter's five force analysis followed by a conclusion.
Insurance is a security provided by the insurer to the insured. In other words, it is a method of transferring, distributing and sharing of risk or it is a process of minimising the loss. The importance of insurance is vital as it contributes both for national economy and international trade. Huge capital is collected by the insurer and then invested in the national economy that results in the growth of an economy. Therefore, a positive correlation exists between economic development and people expenditure in the insurance sector. Business models of insurance are based on the concept that everything in the universe is subject to uncertainty or risk even though there is a particular ratio between uncertainty and the population which may vary from one region to another or from one point of time to another. Business organisations calculate the ratio of uncertainty and thereafter decide the premium for insurance products by considering costs and profits.
According to Outreville F.J. (1998), insurance is a contract whereby, the insurer undertakes, for a premium, to make a payment to another party, the policyholder or a third party. Insurance is a contract of indemnity where the insured is not to make profit out of the insurance policy, but it is used as a tool for compensation in case of defined uncertainties.
1.2 Brief History of Insurance in India:
The concept of insurance is as old as human civilization. The oldest evidence of insurance exists in the form of marine insurance where voyages were insured to minimise the losses. Since then, there has been several developments in insurance, mainly in its types and laws. India has been very rich in traditions, rituals and ethical value of people which provided a social security or insurance to everyone. First instance of insurance in India has been seen in the form of marine

insurance. Modern form of insurance came in India from Britain in the year 1818 in Calcutta in the name of Oriental Life Insurance Company. Its main objective was to insure European widows and their kin. Later several companies came in the insurance business with its main objectives as safety and security to the European lives. As Indians were treated sub-standard, they were required to pay fifteen percent to twenty percent extra for the insurance premium. The federal nature of constitution of India, provides division of power between the center and the state. Insurance is included in the union list which means the law of central legislature regarding insurance would be uniform throughout the territories of India. There have been several phases in the development of insurance industry in India:

1.2.1 Phase I - Ancient period:

Insurance provides safety to an individual in several forms since its inception. There were friendly societies in India and China established for providing financial aids to a suffering member from a common fund created from the contribution of all. The initial evidence of insurance as a contract in India has been seen in the form of marine insurance in the form of marine trade loan. Its reference exists in Kautilya's Arthshastra, Yagyavalkya's Dharmshastra and Manu's Smriti. In this time too there were well developed mathematical systems to calculate the premium.

1.2.2 Phase II - British India period:

The first evidence of life insurance business in India is found in the year 1818 when the 'Oriental Life Insurance Company' was established in Calcutta. However, this company could not function well and forced to become dysfunctional in the year 1834. In the year 1829, the 'Madras Equitable' started its business in life insurance in the 'Madras Presidency'. In the year 1870, British government enacted the British Insurance Act which brought three companies till the end of 19th century viz: 'Bombay Mutual' (1871), 'Oriental' (1874) and 'Empire of India' (1897) in the Bombay Residency. Since 1914, the Government of India started showing the performance of insurance companies in India. The Life Assurance Companies Act, 1912 laid the provision for the government to collect data pertaining to insurance business in India.

1.2.3 Phase III -Free India (1947-1999):

During the third phase there were several principal agencies functioning as insurer and competition existed among them. After independence the Government of India sensed the unfair practices existing in the principal agencies and started thinking so as to give a legal structure to the insurance companies, which thereby resulted in the Insurance Amendment Act 1950 as a result the government decided to nationalise the insurance business. On 19th January 1956 life insurance sector was nationalized that resulted into the birth of Life Insurance Corporation of India. In total 245 Indian and non-Indian companies were taken over as a result that led to the formation of LIC of India. LIC operated its business without any competition till late 90s before reopening of the insurance sector for the private players.

1.2.4 Phase IV - Since establishment of IRDAI:

The thought of private sector companies into the insurance sector initiated in the decade of 90's in the year 1993. A committee was set up under the guidance of Mr. R.N. Malhotra a retired RBI governor. The committee submitted its report in the year 1994 in which several recommendations were suggested, among those it was recommended to introduce private sector companies in the insurance sector in India. Foreign companies were also permitted to operate their business in India with the condition that their operations must be in joint venture with an Indian company.

As per the recommendations of Malhotra committee, in 1999, the Insurance Regulatory and Development Authority (IRDA) was established as a regulatory body for the overall management of insurance sector. It is an autonomous body to regulate and develop the insurance industry. IRDA started its functioning in financial year 2000-01. Keeping a much broader vision, it became a customer centric organisation intensifying competition among the companies in India. The IRDA started inviting applications for registration as insurance company since August 2000.

Today there are 31 general insurance companies including the ECGC, Agriculture Insurance Corporation of India and 24 other life insurance companies operating in the country.

Since the establishment of IRDA there have been several amendments in the insurance act from time to time whenever required. Two major key notes have emerged since the year 2000. First is the establishment of IAI (Institute of Actuaries of India) in the year 2006, the main objective of IAI is to provide a structure and advancement of actuarial profession in India. It is an actuary who takes the final decision for an insurance product, second is the Insurance Amendment Act 2015. Whose main features are as follows:

1.2.4.1 The ceiling of foreign investment was hiked from 26% to 49%.

1.2.4.2 Control of joint venture for insurance would be in the hands of Indian companies.

1.2.4.3 Insurance companies were allowed to issue preference shares or debentures apart from equity shares which provided an opportunity to raise the capital.

1.2.4.4 Indian partners no longer were required divesting stake exceeding 26% after a cap of 10 years, hence they were allowed to divest with conditions.

1.2.4.5 Health insurance is to be regulated as a separate class of insurance (initially referred as general insurance).

1.2.4.6 More power for insurance regulator.
1.2.4.7 Decisions are now appealable.

An insurance report by Indian Brand Equity Foundation (2019), IRDAI has allowed the insurance companies that have completed ten years in operation to raise their capital through IPOs if they have embedded value of twice the paid-up equity capital.

1.3 Types of Insurance services in India:

Insurance sector in India is well known for life insurance and general insurance. The Insurance Amendment Act (2015) provides that health insurance shall be regulated as aseparate class of insurance. The objective behind it was to make the people of India aware with health insurance. Hence the scope of insurance in India can now be divided into three major types as illustrated in Table 1.1:

Table 1.1 Types of Insurance

Life insurance	Health insurance	General insurance
Risk cover policy	Cumulative plan	Motor insurance
Money-back policy	Particular disease	Home insurance
Unit linked plan		Fire insurance
Child Plan		Travel insurance
Pension plan		Burglary/Theft insurance

Source: IBEF report 2019

1.3.1 Life insurance:

Life insurance is a contract between an insurer and an insured that offers financial support in case of death or disability. Pension plans offer financial support after retirement or after a certain period. Life insurance, thus, helps one to secure his family's financial liability even in his absence. The payment mode of premium for a life insurance policy has flexibility and can be paid in yearly, half yearly, quarterly or monthly mode. In exchange of premium, insurer promises to pay an assured sum to one's family in the event of death, disability or at a set time. Life insurance can help us support our family even after retirement. Depending onitscoverage, life insurance can be classified into various types:

1.3.1.1 Risk covers policy:

Risk cover policy is the most basic type of insurance that covers insured for a specific period of time. Family of an insured gets a lump-sum amount of money in the case of death of insured. If insured survives after the policy period, no money is paid.

1.3.1.2 Money-back policy:

In money-back policy, a certain percentage of the sum assured is paid to the insured periodically throughout the term as a survival benefit. After expiry of the term, the insured gets the balance amount as maturity. Family of an insured gets the entire sum assured in case of death during the policy period, regardless of the survival benefit payments made.

1.3.1.3 Unit linked insurance plans (ULIP):

In unit linked insurance plans, a part of the premium goes towards the insurance cover of an insured and the remaining amount is invested in debt and equity. A lump-sum amount will be paid to the family of an insured in the event of his/her death. In case of survival after policy period, the insured maturity amount is given to the insured.

1.3.1.4 Child plan:

Generally, these plans are taken by the parents. If father is taking the plan, insured would be father, nominee would be child and mother would be appointee. If mother is taking the plan then mother would be insured, child would be nominee and father would be appointee. In case appointee is other than parents then a declaration is needed. In case of death of insured, a lump-sum amount of money is given to appointee and some essential expenses are also given as per the policy provision. If insured is survived after policy period, the maturity amount is given to the insured. Child plans can be taken as term plan or unit linked plan.

1.3.1.5 Pension plan:

Pension Plans help in building one's retirement fund. Insured can get a regular pension amount after retirement. In the case of death of an insured during the period of plan, family of insured can claim the sum assured. Insured can withdraw the whole corpus by paying the amount of money calculated by the provision of tax.

1.3.2 Health insurance:

Insurance Amendment Act (2015) provides that health insurance is a separate class of insurance and will not be treated under general insurance. It covers the cost of medical care. It can be cashless, where an insured is not supposed to pay any money for the medical aids with the provisions or it can be the reimbursement of payment on medical emergency. It can be cumulative i.e., a number of diseases are covered with a provision or particular, when a single disease is covered. The feature of a health insurance policies as following:

Hospitalisation benefits:

Hospital benefits are given, when an insured is hospitalised for a minimum time period of twenty-four hours. The main benefits of hospitalisation are expenses of ambulance, medicines, operations, room rent, daily expenses as per provisions of the policy, expenses of an assistant as per the provisions of a policy. Some policies give expenses including medicines and the doctor's fees for pre-hospitalisation and post-hospitalisation.

Pre-existing diseases cover:

Health insurance takes care of the treatment of diseases. The insured may have before buying the health insurance policy. It requires an additional charge.

Accident cover:

Health insurance can pay for the medical treatment of injuries caused due to accidents and mishaps.

Tax benefits:

Health insurance helps to save the tax u/s 10(10) D. The premium paid reduces the taxable income.

1.3.3 General insurance:

General insurance is a contract between an insurer and an insured that offers financial compensation on any losses other than death. It insures everything apart from life. A general insurance compensates financial losses of an insured due to the liabilities related to house, car, bike, travel, etc. Insurance companies promise to pay insured a sum assured to cover the damages of the vehicle, losses due to theft or fire, or even financial problems during travel. Simply, general insurance offers financial protection for all assets against loss, damage, theft, and other liabilities. It is different from life insurance and life is never covered in general insurance:

1.3.3.1 Motor insurance:

Motor insurance is just like any other insurance. It is a contract between an insurer and the insured. It is mandatory to have motor policy for vehicles else one cannot ride without having the vehicle insured. It provides cover against loss or damage due to natural calamities, man-made calamities, personal accident, third party liability and additional covers by paying an extra premium (icicilombard.com).

Calculation of premium is based on the type of vehicle, age of vehicle, period of coverage, discount, and IDV (Insured Declared Value). Based on coverage motor insurance is of three types viz; third party cover, fire and theft cover and comprehensive cover which is the widest coverage. Based on type of a vehicle motor insurance can be divided into bike insurance, car insurance and commercial vehicle insurance.

1.3.3.2 Home cover:

Home insurance is taken to protect one's belongings from fire, explosion, aircraft damage, storm, floods, burglaries, earthquake etc. There are three options in home insurance that are only content within home, both building and content and building, contents and jewellery.

1.3.3.3 Fire insurance:

Fire insurance pays or compensates on account of the damages caused to the property or goods due to fire. It covers the replacement, reconstruction or repair expenses of the insured property as well as the surrounding structures. It also covers the damages caused to a third-party property due to fire. In addition to these, it takes care of the expenses of those whose livelihood has been affected due to fire. Some of the different types of fire insurance are:

Valued policy: The insurer firsts value the property and then undertakes to pay compensation up to that value in the case of loss or damage.

Floating policy: It covers the damages to properties lying at different places.

Comprehensive policy: This is known as an all-in-one policy. It has a wide coverage and includes damages due to fire, theft, burglary, etc.

Specific policy:

Under this policy one is covered for a specific amount which is less than the real value of the property.

1.3.3.4 Travel insurance:

It provides security at the time of travelling. It can be domestic, overseas or both. It protects against risk of life, belongings and other miss-happenings during travelling. It does not cover pre-existing disease, war risk, suicide, insanity and hazardous sports.

1.4 Life Insurance Companies in India:

There are twenty-four life insurance companies in India. LIC of India is the only public sector company. The remaining twenty-three are private sector companies.

Table 1.2 Life Insurance Companies in India

Sl. No.	Company	Sector	Head Quarter	Year of Inception
1.	Life Insurance Corporation of India	Public	Mumbai	1956
2.	HDFC Standard Life Insurance Co. Ltd	Private	Mumbai	2000
3.	ICICI Prudential Life Insurance Co. Ltd.	Private	Mumbai	2000
4.	Max Life Insurance Co. Ltd.	Private	Delhi	2000
5.	Aditya Birla Sun Life Insurance Co. Ltd.	Private	Mumbai	2000
6.	Kotak Mahindra Life Insurance Co. Ltd.	Private	Mumbai	2001
7.	TATA AIA Life Insurance Co. Ltd.	Private	Mumbai	2001
8.	SBI Life Insurance Co. Ltd.	Private	Mumbai	2001
9.	Exide Life Insurance Co. Ltd.	Private	Bangalore	2001
10.	Bajaj Allianz Life Insurance Co. Ltd.	Private	Pune	2001
11.	PNB Metlife India Insurance Co. Ltd.	Private	Mumbai	2001
12.	Reliance Nippon Life Insurance Company	Private	Mumbai	2001
13.	Aviva Life Insurance Company India Ltd.	Private	Gurugram	2002
14.	Sahara India Life Insurance Co. Ltd.	Private	Lucknow	2004
15.	Sriram Life Insurance Co. Ltd.	Private	Hyderabad	2004
16.	Future Generali India Life Insurance Co. Ltd.	Private	Mumbai	2007
17.	Bharti AXA Life Insurance Co. Ltd.	Private	Mumbai	2008
18.	IDBI Federal Life Insurance Co. Ltd.	Private	Mumbai	2008
19	Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd.	Private	Gurugram	2008
20.	Aegon Life Insurance Co. Ltd.	Private	Mumbai	2008
21.	DHFL Premerica Life Insurance Co. Ltd.	Private	Mumbai	2008
22.	Star Union Dai-Ichi Life Insurance Co. Ltd.	Private	Mumbai	2008
23.	India First Life Insurance Co. Ltd.	Private	Mumbai	2009
24.	Edelweiss Tokio Life Insurance Co. Ltd.	Private	Mumbai	2011

Source: IRDA report 2019

Inception of private insurance companies started in the year 2000 with HDFC Standard Life Insurance Co. Ltd. and the last company to be introduced was Edelweiss Tokio Life Insurance Co. Ltd. in the year 2011. Each Company is a joint venture of one Indian company and an overseas company.

1.4.1 Major Private Players of Life Insurance in India:

These companies have been selected based on claim settlement ratio. Claim settlement ratio represents the overall management of an insurance company. Higher claim settlement ratio reflects good quality of working in a company. In other words, it reflects the total quality management of a company. Lower claim settlement can be interpreted as poor underwriting process due to which a company is not able to provide the compensation. Process of underwriting starts from the lower level and goes up to the higher level. Poor underwriting shows that employees at all levels have ignored the wrong information given by the proposer.

Table 1.3 Top Ten Life Insurance Companies based on Death Claim Settlement Ratio

Sl. No.	Life Insurance Companies	Death Claim Settlement Ratio
1.	TATA AIA Life Insurance Co. Ltd.	99.07%
2.	HDFC Standard Life Insurance Co. Ltd	99.04%
3.	Max Life Insurance Co. Ltd.	98.74%
4.	ICICI Prudential Life Insurance Co. Ltd.	98.58%
5.	Reliance Nippon Life Insurance Company	97.71%

6.	Kotak Life Insurance Co. Ltd.	97.4%
7.	Bharti AXA Life Insurance Co. Ltd.	97.28%
8.	Aditya Birla Sun Life Insurance Co. Ltd.	97.15%
9.	Exide Life Insurance Co. Ltd.	97.03%
10.	DHFL Premerica Life Insurance Co. Ltd.	96.8%

Source: IRDAI Report 2018-19

1.5 Industry Analysis:

Insurance industry is constantly reflecting a gradual growth in business since its inception. Government policies have also played a vital role in flourishing the insurance industry. Government of India has been taking care of the stake holders, insurer and the insured. There has been several acts and amendments in insurance sector so as to promote the insurance business. IBEF report (June 2020) has revealed that there are four major factors that can flourish the insurance business in India viz: robust demand, attractive opportunities, policy support and increasing trends of investment:

Robust Demand:

Robust demand is due to the fact that people of India are becoming more self-aware now a days as they have started knowing the importance of insurance in times of contingency. There has been constant innovation in insurance products. Now customers can choose a product of their requirements. Online operations in policy and payments are another innovation that have transformed the processes and for individuals who have no time to go to insurance offices, at the same time it provides the comparison of products too.

Attractive Opportunities:

Market penetration of insurance industry is still very low as there is a lot of scope for expansion for the insurance business. Only 2.88% of the whole population in India are insured. As per IBEF report, 2019, premium collection in the insurance sector is only 3.69% of GDP which can be increased.

Policy Support:

Inception of insurance bill has provided greater degree of flexibility for IRDA in regulating the insurance sector. Tax incentives are another factor which attract the customers to buy an insurance product. Hike in ceiling from 26% to 49% will enable insurance companies to manage it well. Permission for 100% FDI (Foreign Direct Investment) is another milestoneat the policy level that supports the insurance sector (IRDA reports).

Increasing Investment: Reduction in net owned fund requirement from Rs. 5000 crores (US $720 million) to Rs. 1000 crore (US$ 140 million) provides more availability of funds for insurance companies.

1.5.1 Market Share of Life Insurance Companies in India:

Bifurcating the insurance business into public and private sector, the market share of public sector enterprises is much ahead from its private counterparts whether it is collection of premiums, number of policies or sum assured. LIC of India is the sole company in the public sector while there are twenty-three companies in the private sector among which HDFC Standard life Insurance co. Ltd. is at the top position in premium collection and sum assured while SBI Life insurance Co. Ltd. leads in number of policies.

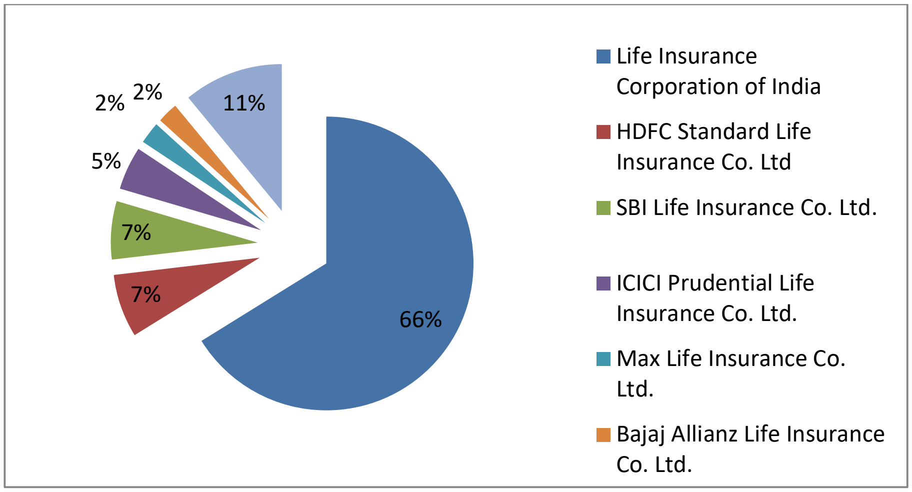
Table 1.4 Market Share of Private Sector Life Insurance Companies in India

Sl. No.	Company	Premium	Policies	Sum Assured
1.	Life Insurance Corporation of India	66.24%	74.71%	75.21%
2.	HDFC Standard Life Insurance Co. Ltd	6.97%	3.38%	4.66
3.	SBI Life Insurance Co. Ltd.	6.42%	5.32%	2.63
4.	ICICI Prudential Life Insurance Co. Ltd.	4.78%	3.12%	3.41
5.	Max Life Insurance Co. Ltd.	2.40%	2.25%	1.97
6.	Bajaj Allianz Life Insurance Co. Ltd.	2.29%	1.08%	1.91
7.	Kotak Mahindra Life Insurance Co. Ltd.	1.85%	1.21%	1.44
8.	Aditya Birla Sun Life Insurance Co. Ltd.	1.82%	1.00%	1.78
9.	TATA AIA Life Insurance Co. Ltd.	1.15%	1.22%	1.04
10.	India First Life Insurance Co. Ltd.	0.93%	0.62%	0.8
11.	PNB Metlife India Insurance Co. Ltd.	0.78%	0.74%	1.11
12.	Canara HSBC OBC Life Insurance Co. Ltd.	0.68%	0.45%	0.56
13.	DHFL Pramerica Life Insurance Co. Ltd.	0.57%	0.26%	0.77
14.	Reliance Nippon Life Insurance Co. Ltd.	0.50%	0.79%	0.28
15.	Bharti AXA Life Insurance Co. Ltd.	0.42%	0.58%	0.20

16.	IDBI Federal Life Insurance Co. Ltd.	0.38%	0.35%	0.11
17.	Sriram Life Insurance Co. Ltd.	0.38%	0.96%	0.42
18.	Exide Life Insurance Co. Ltd.	0.37%	0.70%	0.63
19.	Future Generali India Life Insurance Co. Ltd.	0.33%	0.25%	0.56
20.	Star Union Dai-Ichi Life Insurance Co. Ltd.	0.32%	0.33%	0.18
21	Edelweiss Tokio Life Insurance Co. Ltd.	0.21%	0.28%	0.24
22.	Aviva Life Insurance Company India Ltd.	0.13%	0.11%	0.05
23.	Aegon Life Insurance Co. Ltd.	0.05%	0.18%	0.32
24.	Sahara India Life Insurance Co. Ltd.	0.00%	0.00%	0.21

Source: IRDA report 2019

Figure 1.1 Market share of private sector life insurance companies in India

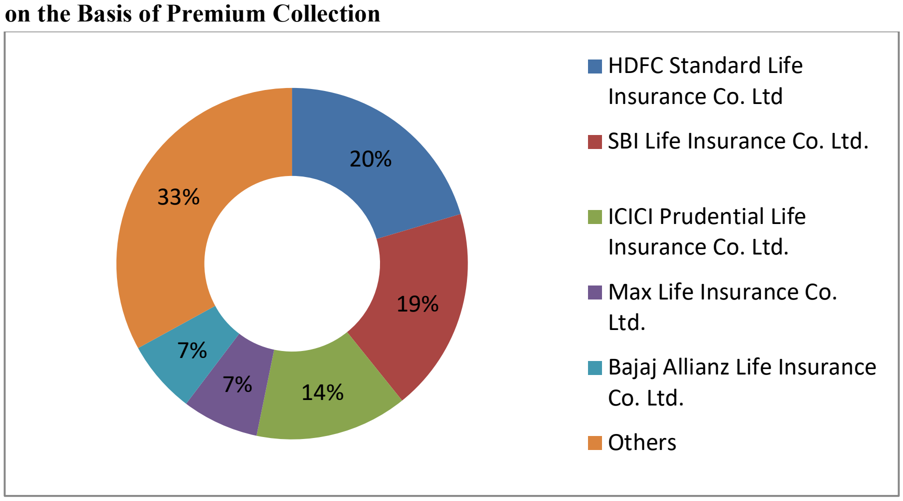


Source: Derived from table 1.4

1.5.2 Market Share among Private Life Insurance Companies: Table 3.4 depicts private companies have a market share of 33.76% on the basis of premium collection, 25.29% on the basis of number of policies and 24.79% on the basis of sum assured provided to the insured.

1.5.2.1. On the Basis of Collection of Premium: On the basis of premium collection, the highest share is for HDFC Standard. Top five companies cumulatively hold 67.7% of the private sector market share while the remaining nineteen companies contribute only 33.3% of share.

Figure 1.2Market Share of Private Insurance Companies on the Basis of Premium Collection

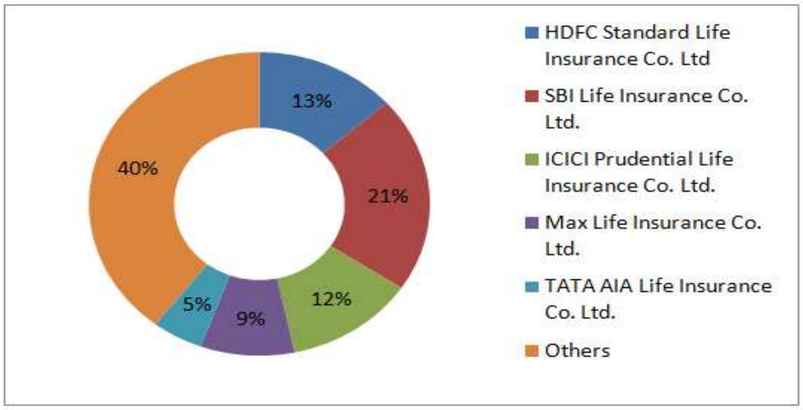


Source: Derived from table 1.4

1.5.2.2. On the basis of the number of policies issued:

On the basis of number of policies issued the highest share is of SBI Life Insurance Co. Ltd. Top five companies cumulatively hold 60.42% of private sector market share while the remaining nineteen companies contribute only 39.35% of share.

Figure 3.3 Market Share of Private Insurance Companies on the Basis of Number of Policies Issued

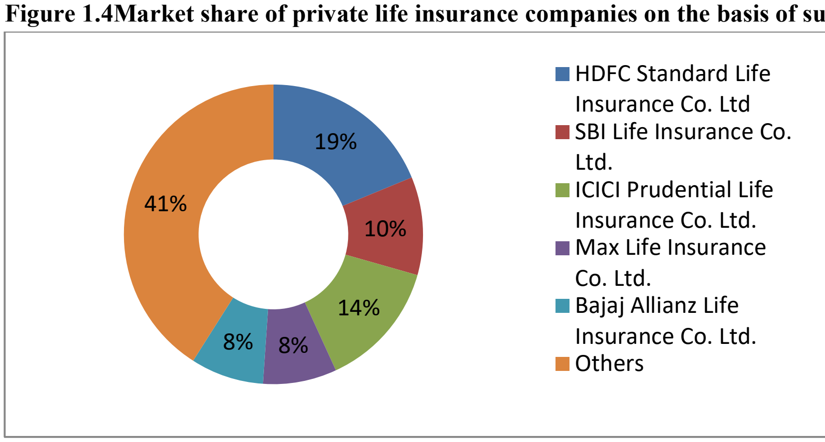


Source: derived from table 3.4

1.5.2.3. On the Basis of Sum Assured:

Considering the benchmark of sum assured the highest share is of HDFC Standard Life Insurance Co. Ltd. Top five companies on the basis of business cumulatively hold about 59% of private sector market share while the remaining nineteen companies contributes to 41% of the share.

Figure 1.4Market share of private life insurance companies on the basis of sum assured



Source: derived from table 1.4

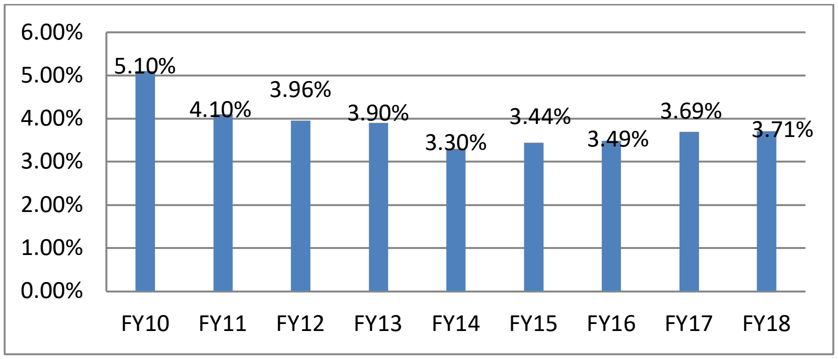
1.5.3 Growth of Life Insurance Companies in India:

There has been a gradual growth in the insurance sector since 2001, though ups and downs are there which was as a result of fluctuations in the economy:

1.5.3.1 Percentage Contribution in GDP:

Considering the contribution of insurance sector in GDP, there has been a decline in its contribution towards the GDP since the year 2010 though the volume of the business has been increased. It is represented in figure 3.5.

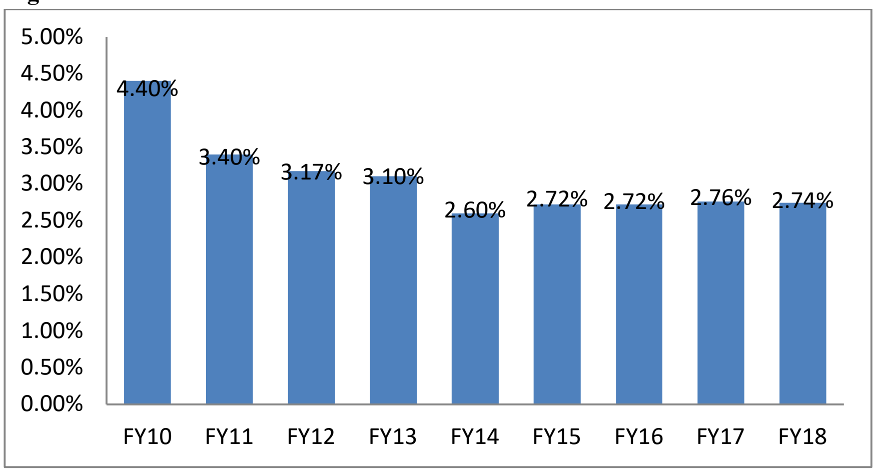
Figure 1.5 Contribution of insurance Sector in GDP



Source: statistica.com, 2019

Following the trend of insurance sector, contribution of life insurance companies towards the GDP has been declined since the year 2010 though the business volume has been increased. It is represented in figure 3.6.

Figure 1.6 Contribution of Life insurance in GDP

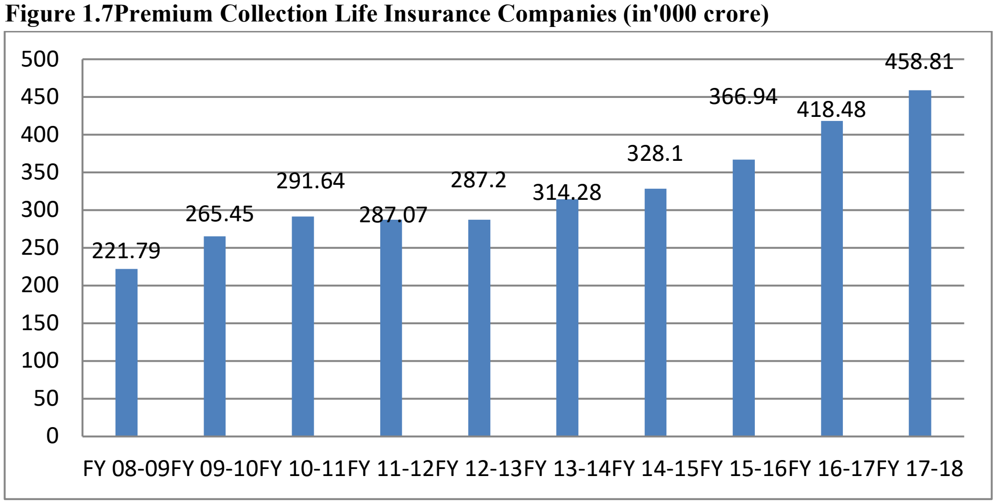


Source: statistica.com, 2019

1.5.3.2 Collection of Premium (in thousand crore):

Reports published by IRDA show that there has been an increasing trend in the premium collection year on year basis in the last ten years in life insurance business except in the year 2012 (FY 2011-12). Maximum growth has been recorded in FY 2009-10 (19.69%).

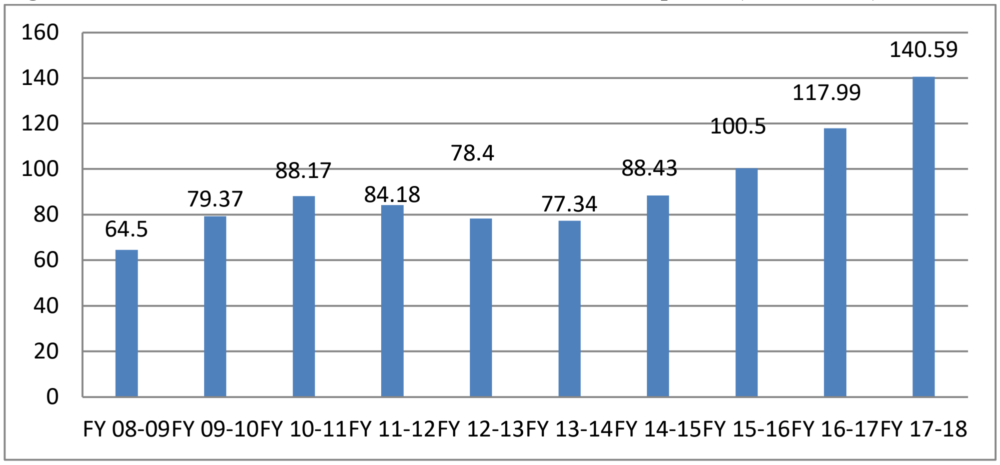
Figure 1.7Premium Collection Life Insurance Companies (in'000 crore)



Source: IRDA annual report, 2018

While considering the private insurance companies, it is observed that there has been an increasing trend in premium collection year on year basis in the last ten years in life insurance business except in the FY 2011-12; FY12-13 & FY13-14. Maximum growth has been recorded in FY 2008-09 (25.09%).

Figure 1.8Premium Collection of Private Life Insurance Companies (in'000 crore)

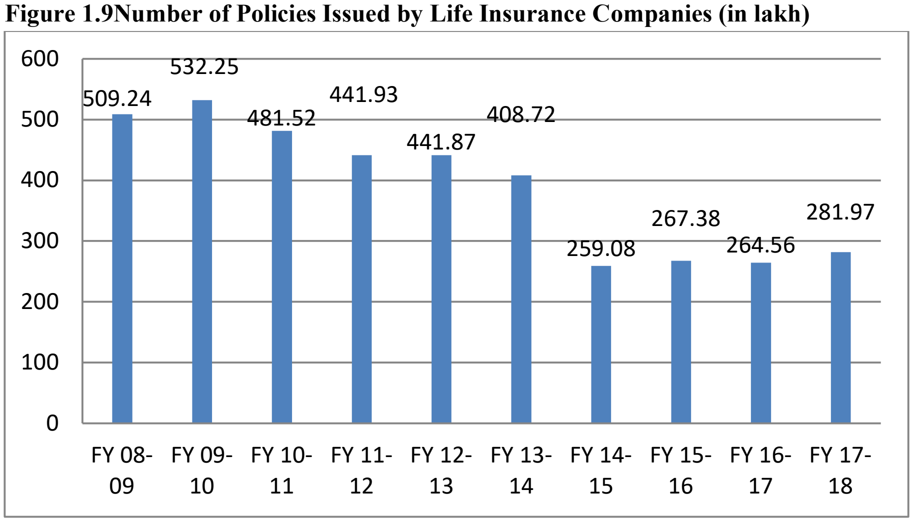


Source: IRDA annual report, 2018

1.5.3.2 Number of Policies Issued (in lakh):

Since 2009 there has been a trend of gradual decrease in the number of policies in life insurance. FY 2017-18 shows an increase in the number by 6.58%. In the last ten years minimum number of policies issued in FY 2014-15 recorded a percentage decline of 36.61% (Table 3.9).

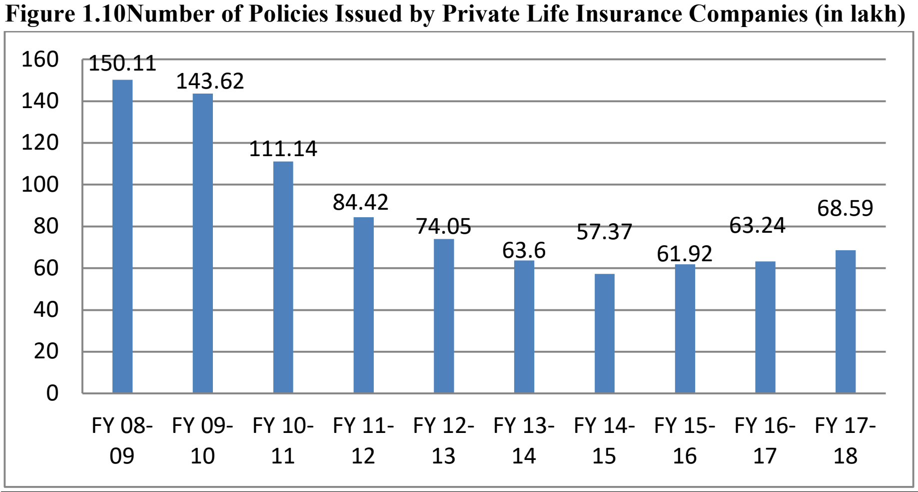
Figure 1.9Number of Policies Issued by Life Insurance Companies (in lakh)



Source: IRDA annual report, 2018

The situation is brighter among private life insurance companies as the trends follow a growth in the number of policies from FY 2015-16. Though the highest numbers of policies have been sold in FY 2008-09 in the last decade. The maximum percentage of decline (24.04%) has been seen in FY 2011-12.

Figure 1.10Number of Policies Issued by Private Life Insurance Companies (in lakh)



Source: IRDA annual report, 2018

1.6 Drivers for growth of Insurance Industry in India:

There has been a gradual and substantial increase in the collection of premiums in the insurance sector which means a greater inflow of money. Cause and effect relationship exist behind the growth of insurance sector in India. Some of the drivers for the growth of insurance industry in India are analysed below:

1.6.1 Growth in Financial Industry:

Growth in the financial sector results in the simultaneous growth of the insurance sector too. This is because of increase in the working population which results in higher disposable income. There is an increasing awareness for financial products including insurance. Table 3.5 clarifies that all sectors of financial industry move in the same direction.

Table 1.5 Growth Relationship of Different Sectors in Financial Industry

Year	Mutual Fund (AUM)	Banking	Life Insurance
FY 16	252.06	1466.47	56.8
FY 17	272.62	1599.34	64.9
FY 18	331.42	1781.12	71.1
FY 19	340.48	1866.22	72.7
FY 20	404.73	1698.97	67.6

Source: IBEF report, 2020

1.6.2 Innovation and efficiency:

Innovation in insurance products signifies addition of features in an existing product. It enables the customers to fulfill more of his requirements with a single product. Facility of rider in insurance products by paying very small amount of money makes the product more flexible. Likewise, innovation in distribution channels make the product available at the doorsteps of the customers, eg; online payments of premium or online issuance of policy saves time for customers as they are easily willing to take the insurance product (IBEF, 2020).

1.6.3. Competition:

IBEF report (June 2020) provides that there has been an increase in competition among the insurance companies due to increase in their numbers. It results in the availability of more featured products at more competitive prices.

1.6.4 Growth in Specific Segments:

Growth in aparticular segment of companies may lead to an increase in insurance sector eg; increased focus of the government on financial inclusion leads to an increase in micro insurance, rapid expansion in auto industry leads to an increase in motor insurance, focus on health care leads to an increase in health insurance or awareness of risk of life leads to an increase in life insurance. (IBEF, 2020)

1.6.5 Tax Incentives:

Government has made a provision of tax saving through insurance products under different sections of insurance act, for example premium of a ULIP policy with a lock-in period of five years gives tax benefits under section 80C.Premium of medical insurance gives tax benefit under section 80D and premium of a pension plan gives tax benefit under section 80CCD(1). Besides it, tax free maturity value of a product comes under section 10(10D). Therefore, tax benefits attract the customers as they get an immediate return from tax benefits.

1.6.6 Government Policies:

Government plays a vital role in the performance of any sector. When policies are favourable, the sector records a growth, e.g., provision of more stake of foreign companies in joint venture (Press Information Bureau, Govt. of India – Dated Feb20, 2015), led to a growth in the insurance business (Fig.3.8). In case when it is un-favourable, the sector has to struggle, e.g., reduction in commission of agents in the year 2008-09 led to a brake in the collection of premiums. Policies of government puts an impact over working organisations directly or indirectly that has been analysed as below:

1.6.6.1 Approval of increase in FDI limit and revival package:

Through the revival package the government aims to foster the activities of the insurance sector, eg. relaxation in investment norms has increased the sales volume of financial products. Foreign share in joint venture of insurance companies has been raised from twenty four percent to forty nine percent though the ultimate control lies with Indian companies. As per the Union Budget 2019-20 hundred percent FDI has been permitted for insurance intermediaries.

1.6.6.2 Life insurance companies can go public:

Recently IRDA allowed life insurance companies completing 10 years of operation can raise their capital through IPO with the condition that they should have an embedded value of twice the paid-up equity capital. SBI Life Insurance Co. Ltd. has raised its capital with this facility (IBEF, 2020).

1.7 Porter's Five Force Analysis for Insurance Industry:

It is named after Michael E. Porter (Professor, Harvard Business School). Porter's five forces is a model which identifies and analyses five competitive forces (Hole, Y. et. al, 2019). These forces help the industry to determine its strengths and weaknesses. It determines the structure of an industry and enables an organisation to track its strategy. This model is significant to any industry of an economy and provides the base for the long-term profitability. As per IBEF report (2018), the five forces are: competitive rivalry within the industry, threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitutes.

1.7.1 Competitive rivalry:

Competitive rivalry is a measure of the extent of competition among existing firms within the industry, it refers to the extent to which firms within an industry put pressure on one another and limit each other's profit potential. Intense rivalry can restrict the profits and lead to competitive moves, including, price reduction, increased expenditure in advertising and more spending on service, product improvements and innovation. If rivalry is fierce, then competitors try to steal profit and market share from one another which in turn leads to a negative impact over a firm (IBEF report, 2020).

1.7.2 Threat of new entrants:

There is always a threat of a new company entering in the market. Positioning a company in insurance sector is not an easy task. It is governed by IRDAI. Parameters related with financial, legal and technical aspects must be followed before getting registered under IRDAI. After getting registered, an establishment of brand is another tedious task that the established players will never want. Besides it there is a lack of market penetration too, for example, distribution channel is not developed, hence considered as neutral factor (IBEF report, 2020).

1.7.3 Bargaining power of suppliers:

In insurance sector agents are known as suppliers who have a target for the number of policies and the premium to be collected in a given financial year. Competitors make the target of agents more difficult because customers switch easily. With the advent of online policy system, insurance products can be purchased without any interaction with agents which again becomes a problematic situation for agents. The above situations have eliminated the monopoly of agents in the insurance sector as their bargaining power due to demand of increase in commission, reduction in criteria of achievements etc. has been reduced. Therefore, its impact is considered positive (IBEF report, 2020).

1.7.4 Bargaining power of buyers:

Customer is the king of any business model. When products are purchased at the corporate level the bargaining power is high. As far as the insurance sector is concerned, products are designed with the constraints set by IRDAI. In this case customer cannot get customization and at the same time price of a product is set by actuaries who are governed by the government. Hence customers lose their bargaining power and have no impact on the business of insurance companies. Hence, its impact can be considered as neutral.

1.7.5 Threat of substitutes:

When the purpose of one product is achieved by some other product, the other product is termed as a substitute product and vice versa. For example, child plan of ICICI prudential can be substituted by child plan of HDFC Standard life; investment plan (ULIP) of insurance companies can be substituted by the investment plan of mutual fund companies by presenting good results. The facility of grace period and porting of policies in insurance companies gives more opportunity to the substitute products. Hence, presence of substitute signifies a negative impact over insurance companies.

Figure 1.11Porter's Five Force Analysis for Insurance Industry

Source: IBEF presentation, 2018

1.8 Conclusion:

In the business of life insurance two years have vital importance. First year is 1956 when LIC of India (only public sector company) came into existence and the second year is year 2000 when private sector life insurance companies started coming into existence. There is a gap of almost fifty years in existence of public and private sector companies. Private sector companies think to become at par with LIC but far from alone, they even cumulatively are not in position to touch LIC of India as of now. This is because of the fact that LIC has built a brand image of reliance among the people. An employee of LIC carries all services to the customer till retirement and when that employee retires services are kept in reliable hands. This is the basic difference between LIC of India and private sector companies where rate of turnover is very huge. This is time for private sector life insurance companies to adapt the strategies for long run which will in turn increase the competition between public sector and private sector life insurance companies and customer would be benefited.

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