Vol. 7, Issue 4, January 2018 ISSN 2249-894X

REVIEW OF RESEARCH

An International Multidisciplinary Peer Reviewed & Refereed Journal

Impact Factor: 5.2331

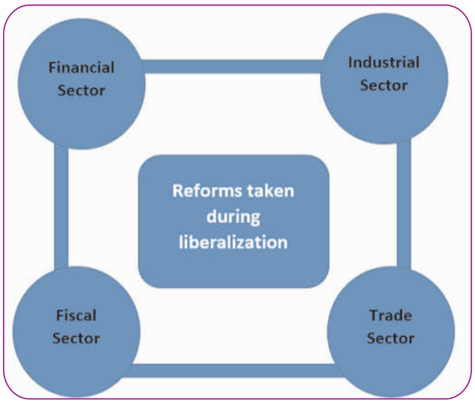
UGC Approved Journal No. 48514

REVIEW OF RESEARCH
ISSN: 2249-894X
IMPACT FACTOR : 5.2331(UIF)
VOLUME - 7 | ISSUE - 4 | JANUARY - 2018

REFORMS IN LIFE INSURENCE SECTOR IN POST LIBERALISATION PERIOD IN INDIA: A STUDY

Srinivas R. Nainoor[1] and Dr. B. Vijaya[2]
[1]Assistant Professor and Head , Department of Commerce , Government First Grade College, Chincholi Dist. Gulbarga.
[2]Professor, Dept.of Commerce , Gulbarga University ,Kalaburgi.

ABSTRACT: -
Liberalization has its direct impact on life insurance. It is one of the powerful service sectors in the world economy. Privatization of insurance sector strengthened the economy. After 1991 the Indian life insurance industry has geared up in all respects, as well as it is being forced to face a lot of competition from many private insurance players. In addition, the general public must be kept abreast of more knowledge and importance of life insurance, as these steps help to boost the growth of insurance industries. In this Indian context, insurance habit among the general public during the independence decade was quite rare and in the following decades, it increased slowly. In this paper an attempt is made to analyze the impact of liberalization on life insurance.



KEYWORDS: *Life Insurance, Insurance sector, Industries, Liberalization, Privatization,*

1. 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 is known as Life Assurance and has turned into an important investment outlet. When compared with the developed foreign countries, the Indian life insurance industry has achieved only a little because of the followings: lack of quality strategies adopted by the LIC, lack of standard education and awareness about savings and lack of employment opportunities. Life Insurance Corporation of India (LIC) started in the year 1956 as a wholly-owned corporation of the Government of India. The following are the main objectives of LIC:

- Spreading life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes, to providing them with adequate financial coverage against death at a reasonable cost.
- Increasing the people's savings by making insurance linked savings adequately attractive.

Investing funds to the best advantage of the investors as well as the community as a whole. Meeting the various life insurance needs of the community that would arise in the changing social and economic environment through its family schemes and group insurance schemes.

The life insurance industry also plays an important role in the mobilization of household and corporate savings and promoting investment activity. This industry provides for efficient and productive allocation of capital resources, thus facilitates growth and development of an economy. India is a nation with large population and a larger share of this population is living below the poverty line. Hence, insurance is an important issue to our economy. The life insurance industry in India, with LIC and 23 private sector players, has been playing a major role in performing some insurance functions to the society, especially to the larger masses. The industry supplements the Government's efforts and takes over the national character. It is a major vehicle in contributing to productivity, providing employment, supporting societal development, establishing infrastructure besides providing financial protection against uncertainties of individuals.

II.REVIEW OF LITERATURE

Balchandran, S. (2001)[1] in his book on "Customer Driven Service Management" concludes that the insurance industry is the fast growing and mostly becoming a customer-driven and customer-centric one. He also advocates that which the insurance products are attractive to the customers, and then only the insurance industry flourishes in the market and serves its purpose of profit earning and also income generation.

Deloitte & Touche Tomhatsu India (2003)[2] The Global Management Consultancy, advises the LIC of India, to ramp up its long-term strategies by closely linking them with the short and medium term-plans and to strengthen them both asset- liability, machinery and also risk management system. The Consultant expresses satisfaction over the guaranteed products offered by LIC and mentions that there was no comparison with Unit Trust of India. The Report further touches upon major restructuring issues like corporatization, removal of sovereign guaranties and increasing the paid-up capital from Rs.5 crores to Rs. 10 crores.

Harrington and Niehans (2004)[3] in their book on "Risk Management And Insurance" provide a brief overview of major life insurance and annuity products which are very much suitable to the lower and middle class customers. The tax benefits available to these products and also their pricing procedures are discussed.

Jha, S.M. (2005)[4] in his book on "Services Marketing" has gone through the various components of insurance marketing. The motive of this is to sensitize the instrumentality of marketing in promoting the insurance business in India.

Srinivasan, M.N. (2006)[5] in his book on "Principles of Insurance Law" categorically states that the different features of insurance contracts and also the principles of insurance law are very much relevant for study to the insurers and their people in understanding insurance contracts. The maxims applicable to insurance contracts and the statutory framework of insurance are also given.

Justin Paul and Padmatha Suresh (2007)[6] in their book on "Management of Banking and Financial Services" explain in detail the concept, benefits and tax concession of insurance. The waves of globalization and liberalization and their impact on insurance industry are also analyzed vividly in the book.

The Indian Institute of Banking and Finance Mumbai (2008)[7] in its book "Risk Management" discusses at length the concept and place of risk in the financial sector and the related managerial aspects. An overview of the risk management and its controlling techniques is also analyzed to enable the employees and practitioners of financial institutions to have a clear understanding on risk management.

Inderjit Singh (2009)[8] in his book on "Insurance and Risk Management" analyzed the different facets of the privatization of Indian Insurance Sector. The different approaches of managing risk-based capital are discussed.

Suresh Kumar (2010)[9] in his thesis on "Valuation of Human Resource in Public Sector Undertaking: A Case Study Life Insurance Corporation of India" discusses the important role played by human resources in the LIC of India. A public sector giant, in the Indian Insurance Market. The monetary evaluation of the importance of this rule is also discussed.

Faure, Michael (2011)[10] in their study analyzed the relationship between competition policy and regulation in insurance sector and found that increasing competition will pose greater challenges to regulators.

Burling, Julian (2012)[11] in his study analyzed that 'Globalization has no greater impact in the commercial world than on insurance, the law which governs it and the risks it seeks to address. The study provides a necessary and useful reference source. It covers so much of what insurance professionals need to be aware of in the insurance/law world of the twenty first century.

III. OBJECTIVES OF THE STUDY.

1) To analyse the condition of life insurance business in post-liberalization period.
2) To analyse the impact of liberalization on Indian life insurance business
3) To provide suggestions to improve the performance of life insurance business in India.

LIFE INSURANCE BUSINESS IN POST LIBERALIZATION PERIOD

After independence the Indian Insurance Business grew at a faster pace. It is witnessed that the Indian Insurance Companies strengthened their hold on this business but despite the growth of insurance remained an urban phenomenon. "After independence, the business of Indian insurance grew at a faster pace as competition amongst the Indian companies intensified and as the non-insurer were dislodged by Indian Life Insurance Companies. Despite the strides by the Indian companies, insurance business remained an urban phenomenon. There was immense scope for further spread of life insurance in the country. Moreover, this limited development was marked by many malpractices involving misuse of insurance funds, excessive costs, deficiencies and frequent liquidation of insurance companies. This shook public confidence and also deprived policyholders of their savings and security".

In 1993, A Committee on Insurance Sector Reforms (CIRS) was formed to evaluate the Indian Insurance Industry and recommended its future direction the Committee headed by Former Finance Secretary and RBI Governor R.N Malhotra was constituted by the union Government in 1993, The Malhotra Committee Report recommended that the General Insurance Corporation should cease to be the holding company and concentrate on insurance business only. The four subsidiaries should become independent companies. The Report also noted that the subsidiaries were overstaffed; The Committee submitted its report in 1994 and recommended the opening up of the insurance sector to private Players. The word 'Development' was inserted in the bill because legislator were much concerned with competition among the insurers, the regulator and the regulated may lose rights of developing the insurance market in India. Though, it naturally defeated the main objective of insurance liberalization and opening up of the sector. In Lokh Sabha in October 1999, the newly drafted Insurance Regulatory and Development Authority (IRDA) Bill 1999 was again introduced by the BJP Government. The Congress which have differences till the last movement. in supporting the bill and finally agreed with some amendments[12].

On 30th October, 1999, the IRDA Bill, 1999, passed by the Lokh Sabha. On 5th November, 1999, the same bill was passed by the Rajya Sabha. On 25th December, 1999. The Bill received assent by the President of India. The Insurance Regulatory and Development Authority 1999 was set up "To provide for the establishment of an authority to protect the interest of the holders of insurance policies to regulate, promote and ensure orderly growth of the insurance industry and for matters connected there with or incident thereto and further to amend the Insurance Act 1938, the Life Insurance Corporation Act 1956, and General Insurance Business (nationalization) Act 1972." The Insurance Reforms was to convert the classes of insurance to the masses of insurance. It enables to the insurance players to create a congenial environment for overcoming the external constraints and operate with greater transparency and flexibility. Some important events in the insurance sector reforms in given in the following table

Table 1: Insurance sector reforms - some major events

Year	Major events
1993	A Committee on Insurance Sector Reforms was set-up by the Government headed by Shri. R N. Malhotra
1994	Malhotra Committee report submitted to the Finance Minister.
1995	Setting up of Mukherjee Committee.
1996	Setting up of an (interim) Insurance Regulatory Authority (IRA).
1996	IRA Bill was introduced in the Parliament and refers to the Standing Committee.
1997	The Government gives greater autonomy to LIC, General Insurance Corporation of India (GIC) and its subsidiaries, with regard to the restructuring of boards and flexibility in investment norms aimed at channeling fund to the infrastructure sector.
1997	Mukherjee Committee Report submitted but not made public.
1997	The Standing Committee submitted its report.
1997	IRA bill was withdrawn following opposition to foreign participation.
1998	Union Budget announced the opening up of insurance sectors.
1999	The IRA Bill was referred to the Standing Committee on finance for examination and report.
1999	The Standing Committee submitted its report with some amendments to the bill and those were circulated.
1999	The standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA was renamed as Insurance Regulatory and Development Authority of India (IRDAI). The bill was passed by Lokh Sabha and Rajya Sabha.
1999	The bill received Presidential ascent and became an Act.
2000	IRDA was given statutory recognition.
2000	The Advisory Committee was constituted and in consultation with the Committee. IRDA notified 11 regulations.
2000	Private Insurance Companies came back and 6 licenses to new players in private sector in life and non-life were issued.
2002	Insurance (Amendment) Act had allowed Cooperative Societies to carry on insurance business with a view to enhancing coverage in rural areas.
2005	Micro Insurance Regulations established a credible and functional system of micro insurance in rural areas.
2008	Introduction of Insurance laws (Amendment) Act in the Parliament.
2003	Health Insurance Regulations passed.
2014	Government passed Insurance Law (Amendment) Act, 2015.
2015	FDI have been hiked to 49 percent in Insurance Sector. Pradhan Mantri Suraksha Bima Yojna and Pradhan Mantri Jeevan Jyoti Beema Yojana.

Source: Annual Reports of LIC and IRDA

Insurance Regulatory and Development Authority (IRDA).

The implementation of IRDA was the major and memorable in the history of Indian Life Insurance Companies. The main objective of IRDA to protect the interest of the insurance policyholder and ensure the growth of insurance industry in the post reforms period. The insured had helped by the regulation of IRDA to have transparency in the activities of the insurers relating to customer servicing, sales, grievance redressal and documentation. These regulations were the important vehicle for innovation in the insurance sector. The both public and private insurance companies were required to go forward with increased coordination and sharing of information in future research effort[13]. The identification by the workshops and experimental projects. The goal of insurance regulations was to balance the inequality of knowledge between both the insurers and the insured, to promote insurance solvency. A unique prizing problem deals with requiring some limits on free and unrestrained competition to promote some related goals. This regulation facilitates the direction of insurance market, management control and correction.

The Insurance Act, 1938 was constituted the Life Insurance Council under section 64A. It is formed for the development of life insurance industry in India; it coordinates between the Government Regulatory Body and the public. The aim of the council is to play an important role in changing the life insurance industry in to a more vibrant to help the people to foster prosperity. It is the face of the insurance industry. The council also plans to provide significant statistical data for the benefit of the stakeholders and regulators. Presently, the council performing the role of a self-regulatory institution of insurer, to some extent. The ethical and moral values for insurer based on standard market conduct. The regulator had facilitated the insurer to serve the policyholders with low cost and more variety of insurance products to suit requirements of the consumers. To sustain quality services in the emerging competitive market by its stiff policies and procedures[14].

Impact of liberalization on Indian life insurance business.

An opportunity given by the liberalization was the entry of transnational competitive insurance companies in to the insurance market. The insurance industry was a Government monopoly till the year 2000[15]. But, now severe competition existed between the insurance players due to a number of players entered into the Indian insurance market with Indian private sector partners in the form of joint venture. During the long monopolistic period minor changes in the procedure by the Government. The deregulation needs the comprehensive changes in the basic polices of the industry. The entrants were successfully lead the new environment they are required to be travelled on the platform of continuous innovation and evaluation. The Insurance players are competing for the space in the insurance market. Such increasing competitive and complicated business environment. It is compulsory for the professional to focus on value creation through a continuous improvement in their efficiency and expertise levels[16]. Due to the introduction of liberalization and insurance reforms, the insurers reforms the insurers has become very crucial even to maintain existing market and hence insurers have to maintain in their performance and efficiency. A variety of new products, new marketing and distribution channels, new approaches to underwritings and claims processing and increasing the use of latest technology affected by the dynamics in external environment and new regulatory framework[1]7. Table No:2 shows the overview of insurance industry during the post liberalization period.

Table No:2 An over view of life insurance industry during the post liberalization

GROWTH	YEAR	
	2000-01	2014-15
Number of players	11	24
Capital employed (in crore)	5	26244
Number of branches	2199	11033
Number of Agents (in lakhs)	115715	2067907
New business premium (in crore)	9707	113328
Renewal premium (in crore)	25185	274773
Total premium	34898	328101

Sources : Compiled and Calculated from the Annual Report of IRDA.

The above table shows the exceptional growth in the overall sector. The number of life insurance players increased from 11 to 24 the number of life insurance branches from 2199 in 2000-01 to 11033 in 2014-15 the agents of life insurance also increased significantly and renewal premium is also increased. It is the symbol of continuous growth. There was also an increase in other variables like insurance penetrations, density, total premium, capital employed etc by the players. The insurance players required to adopt professional approach to ensure the future in the life insurance market.

INSURANCE PENETRATION AND DENSITY.

The insurance penetration measures the growth of insurance premium on different insurance products with the growth of the Gross Domestic Product in the economy and it indicates the development level of insurance sector in the country. The insurance premium defines the total insurance premium in the country measured as a percentage of the country's GDP. The concept of insurance penetration and density measures the insurance activities level of the country. The following table shows the sector wise distribution of gross domestic savings.

Table No: 3 Sector-wise distribution of gross domestic savings (As percentage of GDP at current market prices)

Year	Gross Domestic Savings			
	Household sector	Private Corporate Sector	Public Sector	Total
2004-05	23.6	6.6	2.3	32.4
2005-06	23.5	7.5	2.4	33.4
2006-07	23.2	7.9	3.6	34.6
2007-08	22.4	9.4	5.0	36.8
2008-09	23.6	7.4	1.0	32.0
2009-10	25.2	8.4	0.2	33.7
2010-11	23.1	8.0	2.6	33.7
2011-12	22.8	7.3	1.2	31.3
2012-13	22.4	10.0	1.4	33.8
2013-14	20.9	10.8	1.3	33.0
2014-15	19.1	12.7	1.2	33.0

Sources: Government of India, Economic Survey, 2015-16, New Delhi, P.A-19 to A-20.

The above table shows the percentage of gross domestic savings of household, private corporate and public sectors. It is revealed that the major position occupied by the household sector in percentage of gross domestic savings. During this period it is evident that the favorable economic environment present in the Indian economy. Although, there are fluctuations in the aggregate savings of the household sector. It built a strong base for the development of life insurance industry in India. In Western countries it is found that the major savings is in the private corporate sector. Whereas in India most of the savings done by household sector. In spite of the fluctuation in the household share in the gross domestic savings, the ratio of gross savings in household sector to the GDP recorded considerable increase over the period. In both urban and rural areas the complete level of household sector has been increased, but the uniform rate of growth of savings is not seen in both areas.

IV. MAJOR FINDINGS:

The following are the important findings of the study.

1. The number of life insurance companies has gone up from 11 in 2000-01 to 24 companies in 2014-15.
2. The number of agents in life insurance sector increased from 115715 lakh in 2000-01 to 2067907 lakh in 2014-15.
3. The capital employed by the life insurance sector increased from 5 crores in 2000-01 to 26244 crore in 2014-15.
4. The number of branches increased by life insurance sector from 2199 in 2000-01 to 11033 branches in 2014-15.
5. The total premium collected increased by the life insurance companies from 34898 crore in 2000-01 to 328101 crore in 2014-15.
6. If we compare the market share of public life insurers sector with private life insurers, public life insurers sector is quiet dominating with regard to first year and total premium it seems that people having more trust on public life insurance sector.

V. SUGGESTIONS

The following are the important suggestions made from the study.

- The more extensive market research before introducing insurance products so that insurance can become more meaningful and affordable.
- Insurance companies to design appropriate products determine price correctly and increase profitability.
- Awareness campaign should be encouraged to improve insurance literacy levels by conducting workshops, distributing leaflets, distributing literature.
- Insurance companies should practice fair trade and transparent disclosure while addressing the policyholders.
- The liberalization of the Indian insurance sector has both positive and negative effect. The negative-effects of liberalization on insurance industry can be lessen by promoting healthy competition among the life insurers and keeping the interest of common people.
- To create trust among policy holders, insurance companies should train their sales force to be ethical, understand customer needs and sell appropriate products
- Insurance is basically a risk coverage instruments have been marketed as tax saving as well as wealth maximization instruments. Keeping this in mind, insurance companies should develop such policies which provide effective risk coverage rather than focusing on the tax benefits and also encourage them for long term investment in insurance.

VI. CONCLUSIONS:

Competition has brought more product innovation and better customer servicing and bring positive influence on the life insurance business. Insurance is a several national and international players competing and growing at rapid rates. With so many speed bumps on the path, insurance in India still attractive and fastest-growing financial services markets in the world. Article 41 of our Constitution requires that the State has to make effective provisions for security with respect to old age, sickness and disablement. This can be met through the mechanism of insurance. Hence, it is high time that life insurance is made mandatory in India and the right to insurance be made a fundamental human right.

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Srinivas R. Nainoor
Assistant Professor and Head , Department of Commerce ,Government First Grade College, Chincholi Dist. Gulbarga.

Dr. B. Vijaya
Professor, Dept.of Commerce , Gulbarga University ,Kalaburgi.