E-ISSN: 2708-4523
P-ISSN: 2708-4515
AJMC 2023; 4(1): 156-160

www.allcommercejournal.com
Received: 20-03-2023
Accepted: 27-04-2023

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Indian life insurance industry – Future looks good

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Abstract
The insurance industry has undergone a massive change over the last few years and the metamorphosis has been noteworthy. There are numerous private and government insurance companies in India that have become synonymous with the term insurance over the years. Offering a diversified product portfolio and excellent services the many insurance companies in India have managed to make their way into almost every Indian household. Indian Life insurance sector is growing at a faster rate. This sun rising industry has given a platform for economic growth and employment. The great extent of importance realized after it has opened to the private players in the post liberalization period. With many players in business, the insurance regulatory and development authority came with innovative and constructive guidelines for both products and services. This paper discusses the new trends and challenges that the present industry is facing. Our study is only limited to life insurance sector and small emphasis on other sectors. The suggestion and recommendation will help both academician and industry personnel to re- engineer their thought in insurance sector.

Keywords: Insurance industry, India, growth, life insurance, ULIP, IRDA

Introduction
India's insurance market has undergone numerous changes and is one of the fastest-growing markets today. The pandemic has sped up the industry's rapid digitalization, reflected a rise in its demand, necessitated the development of new products, and more. Furthermore, the prospects show there have been disruptions owing to the extraneous factors that have led to the evolution of the industry itself. According to IRDAI, the sector has witnessed growth between 12 and 15 percent over a five- to six-year horizon. Insurance is one of the demanding financial products in India. Its basic motto is to protect the family of any uncertainty in life. So it is long term investment and need knowledge about that. Indian life insurance is too old. It is there from British Period and after nationalization; it has come fully under Government. In the post liberalization era, insurance has attracted any private players from different parts of the country to start business India. India as a country has potential for growth of this business. With the upcoming of regulator in the year 2000, the business in India became more streamlined. Large players along with customer choice results severe competition Life Insurance Corporation of India in one end and ICICI Prudential life insurance from private sector on the other end has taken maximum market share from both category. Product innovation, profitable growth, multi-channel distribution and ethical practices in business are few factors to be considered. In this situation, a brief study of the above sector is required.

Objectives of the study
- To study the present life insurance scenario and their growth drivers in India
- To study the present trends in life insurance sector
- To study the challenges and opportunities of insurance sector in India
- To suggest feasible measures for improvement in the sector

Research methodology
Exploratory research methodology is used here to analyze the data. Data was collected from multiple sources such as books, journals to understand the Life insurance industry. In this paper, we have referred previous research articles. Apart from this, we have visited different websites and professional magazines. Some more data was collected through personal and telephonic interviews and discussion with leading corporate people. So it is purely based on available secondary data.

Indian life insurance at a glance

Life insurance is an important financial product like banking, pension and others. Life insurance provides protection to life and non-life areas. It is one of the fastest growing industries in India. As per Swiss Re report in 2011, India's ranking in world insurance market was 15th which was lowered than previous year and share of the market was 1.58% of the world market share. At present, there are 23 players in life insurance sector in private and 1 is in Public enterprise which is LIC. Life Insurance Corporation is the market leader. In 2011, its market share was lowered to 69.78%. Among private players, ICICI Prudential life insurance stood first.

The industry gained momentum after the regulator, Insurance Regulatory and Development Authority (IRDA) came into existence. They made standard rule for all the players. Apart from Life insurance Corporation, many private players have shown interest to start business in India. At present we have 23 players leaving the PSU major, LIC.

Between 2001-10, the phase was characterized by a period of high growth (CAGR of 31 percent in new business premium between 2001-10) and a flat growth (CAGR of around 2 percent in new business premium between 2010-12) (source: KPMG). There was exponential growth in the first decade of insurance industry liberalization the back of innovative products and aggressive expansion of distribution, the life insurance industry grew at jet speed. However, this frenzied growth also brought in its wake issues related to product design, market conduct, complaints management and the necessity to make course correction for the long term health of the industry. Several regulatory changes were introduced during the past two years and life insurance companies adopted many new customer centric practices in this period. Product related changes, first in ULIPs in September 2011 and now in traditional products will have the biggest impact on the industry.

The new guidelines for both linked and non-linked products will now come into force from the beginning of year 2014, an extension of three months from earlier specified date. This additional period will ensure that life insurers enter the crucial quarter of Jan-Mar with a full bouquet of products and the sellers are well trained in the nuances of all these new products.

These product guidelines are in line with the IRDA's regulatory theme of customer orientation and long-term nature of the life insurance business. The guidelines follow two overarching themes of providing Guarantee and enhancing Transparency. The major changes introduced include - Higher Death Benefit, Guaranteed Surrender Value and mandatory Benefit Illustration for all life insurance products. These changes related to death benefit and surrender value may marginally reduce the customers' overall maturity benefit i.e. policy IRR, especially at higher ages but will ensure that life insurance serves the purpose of providing life cover which no other financial instrument offers. All ULIPs are currently sold mandatorily with a personalized Benefit Illustration. This requirement is now being extended to other product forms. The new guidelines have also provided for setting up a 'With Profit Committee' at the board level. While personalized benefit illustration will provide for greater transparency in the pre-sales discussion, the With Profit Committee is likely to lead to greater governance in the administration of Participating policies. Premium paying term linked distributors' commission will promote long-term nature of insurance products.

Growth drivers of life insurance industry

From the literature review and market experience, it is clear that many factors are responsible for the robust growth of this sector. The major are as follows

Growing Economy: The economy of India is growing significantly. The second populous country has witnessed a phenomenal growth in major financial services. Various government schemes and programs also helped a lot. The purchasing power of people has increased. Also increase in income has augmented the disposal income among people. Good saving and awareness among various sources of getting the products have compelled the people to go for specialization rather than generalization. It is estimated that by 2026, the working population which ranges n the age group of 25 to 40 will reach approximately 795.5 million.

Rural as a major thrust: More than 70% of population lives in rural area. At the same time their consumption pattern, choice and preference has changed. Technology and internet has given ample scope for rural people towards adopting new ideas. All these forces provided a larger platform to multinational players to focus more on rural. After 2005, the regulator had come with micro insurance specially designed for rural people with low premium and high coverage. The pattern of distribution and pricing is also suitable for rural people with micro insurance. In order to foster growth, Govt. also made mandatory to do certain percentage of policies every year from rural area for the insurance companies. All these steps provide new avenues for the players to think growth more in rural area.

Development of other insurance: Apart from life insurance, there is strong growth in auto sector from 2003 to 2010. The no of passenger and commercial vehicles has increased incrementally. As a result, the motor insurance has become more popular among people. Health insurance has created a separate portfolio in the last few years. People have realized the importance of this due to rise in the healthcare cost. Introduction of Technology in medical science and demand for good service is the main cause for higher medical cost. Awareness about the health due to various schemes and non-government intervention has enlarged the vision of the people about health care. Rastriya Swathya Bima yojana (RSBY) of 2007 is one of the mile stone in this area where people below poverty line are able to get minimum health service.

Other growth drivers: The demand for insurance products is likely to increase due to the exponential growth of household savings, purchasing power, the middle class and the country's working population. Listed below, are the various underlying growth drivers for India's insurance industry:

- Growing of the financial industry as a whole
- Growth of life and non-life industry
- Promoting innovation and removing inefficiency
- Competition and orderly growth
- Growth of specific insurance segments such as motor insurance

Changing trends in life insurance policy

Along with the other objectives of insurance like financial security, tax benefits etc. one of the major objectives is saving and investment. Traditional life insurance policies like endowment were becoming unattractive and not meeting the aspirations of the policyholders as the policyholder found that the sum assured guaranteed on maturity had really depreciated in real value because of the depreciation in the value of money. The investor was no longer content with the so called security of capital provided under a policy of life insurance and started showing a preference for higher rate of return on his investments as also for capital appreciation. It was, therefore found necessary for the insurance companies to think of a method whereby the expectation of the policyholders could be satisfied. The objective of providing a hedge against the inflation through a contract of insurance pushed insurer to link the insurance policy with market and thus the industry observed the beginning of Unit linked insurance policy (ULIP).

The history of insurance in India is deeply rooted, and the journey extends over 200 years. Business-wise, life insurance was introduced in 1818 when the Oriental Life Insurance Company launched in Calcutta. However, during this era, the market was dominated by foreign insurance offices. Then, in 1912, the Indian Life Assurance Companies Act emerged as the first statutory body to regulate life insurance in India. The nationalisation of the insurance sector happened in January 1956 with the emergence of LIC (Life Insurance Corporation), which subsequently absorbed a total of 245 Indian and foreign insurers. Until the 1990s, the LIC had a monopoly in the market until the insurance sector reopened for the private sector and the changes started to show up.

With the recommendations of the Malhotra Committee, IRDA (the Insurance Regulatory and Development Authority) was incorporated in early 2000 as a statutory body to regulate the insurance industry, and it changed the landscape of the industry irrevocably. Over the past two decades, the insurance market in India has experienced impressive growth, thanks to increased private sector involvement, better distribution capabilities, and significant increases in operational efficiency. The insurance sector has never looked back since the sector underwent liberalisation, and it is now one of India's most competitive and developing industries. Today, there are 34 general insurance companies and 24 life insurance companies, according to IRDAI. Furthermore, the total addressable market (TAM) in FY 22 was $66.5 billion, according to Redseer Consulting, and it is anticipated to reach $222 billion by FY 26. Despite the stunning numbers, India is underinsured as a country.

Three separate milestone events:

- Nationalization of General Insurance Companies during 1972, where in 107 insurers were grouped and amalgamated into four Companies – National Insurance Co. Ltd., The New India Assurance Co. Ltd., The Oriental Insurance Co. Ltd. and United India Insurance Co. Ltd
- IRDAI opened the market for private insurance companies in the year 2000, that helped boost insurance penetration in the country
- Introduction & licensing of standalone health insurance companies by IRDA in the year 2006

Have resulted in more focus & penetration of insurance in the Country

Challenges and opportunities

The insurance industry in India faces challenges that need to be addressed in order to ensure elevated growth. There is significantly more population living in rural areas than in urban areas. According to the estimates of the World Bank, roughly 65% of the population lives in these areas. The issues arise because there are relatively few buyers as well as sellers of insurance in rural areas. Some of the main reasons for its low penetration in India include inadequate insurance awareness, gaps in product understanding, and the value of the return on investment of the insurance purchased. Another significant challenge is getting insurance distribution to every area within the last mile. However, not everything is doom and gloom.

The Covid dramatically increased public awareness of health insurance, resulting in a surge in policy purchases. The other insurance products, however, still experience slow growth. Insurance penetration in India during 2021–22 was 4.2 percent, which remained the same as in 2020–21, according to the Annual Report of IRDAI. However, in India, a number of regulatory changes are being implemented to boost the penetration of insurance, boost capital inflow, boost valuation, and ease the entry of small, specialised, and niche players. The increase of the FDI, the General Insurance Business Amendment Bill (August 2021), the introduction of the National Health Stack, and disbursing huge amounts of capital for the development of the industry are some of the key examples. As a result, today, with the entry of private players who are targeting the underinsured market and the rising use of the new distribution, the long-term expansion of the industry has been facilitated by the use of new distribution methods and technological advancements.

Emerging trends

- Multi-distribution i.e. increasing penetration through new modes of distribution such as the internet, direct and telemarketing and NGOs
- Product innovation i.e. increased levels of customization through product innovation
- Claims management i.e. timely and efficient management of claims to prevent delays which can increase the claims cost
- Profitable growth i.e. expanding product range, developing innovative products and expanding distribution channels
- Regulatory trends i.e. mandated regulatory changes by the IRDA to promote a competitive environment in both the life and non-life insurance sectors

Future looks good

India continues to be a country of savers though we have witnessed a decline in the household savings rate in the past couple of years. In India, the problem lies in household savings lying idle or getting invested in saving instruments that does not help them achieve their life stage goals. There is a worrying trend of larger portion of household savings getting into non-productive physical assets such as real estate and gold.

But even then, the future looks interesting for the life insurance industry with several changes in regulatory framework which will lead to further change in the way industry conducts its business and engages with its customers. World over it has been observed that the life insurance industry does behave in a counter cyclical manner in many cases e.g. in a situation where the economic growth is slowing down, due to other factors such as high current account and fiscal deficits, currency depreciation, high interest rates, savings rate will continue to be high, leading to higher demand for life insurance. Life insurance is a big savings vehicle along with banking in such uncertain economic environment and so we expect the industry to fare reasonably well. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will also support the growth of Indian life insurance.

Insurance industry - way forward
The Indian insurance market is poised for strong growth in the long run. It stands at the threshold of moving towards a stable position, delivering “stable profitable growth.”

Significant latent market: The insurance market has a considerable amount of latent potential, given the fact that the Indian economy is expected to do well in the coming decades leading to increase in per capita incomes and awareness.

Channelizing industry focus: In meeting the significant potential, the industry has an increased role and responsibility. Three areas of focus could be-a) product innovation matching the risk profile of the policy holders b) reengineering the distribution and more significantly c) making sales and marketing more responsible and answerable.

Distribution: Distribution channels evolved in response to market dynamics and changing consumer preferences. The alignment of economic incentives with distribution dynamics should be driven by market forces rather than regulatory intervention.

Regulation: The industry should be given time to adjust to regulatory changes in a phased manner aligned with a regulatory impact assessment. Regulations need to drive transparency and simplification of products and services.
The stakeholders should eventually work toward maintaining a favorable environment for stable growth, increasing the penetration of insurance to rural and underpenetrated areas and increasing the contribution to the economy.

Major findings
Hybrid distribution channel: In the life insurance industry, the prominent distribution was agency. Around 90% of businesses were coming from them. The high cost and low persistency in policy has thought of going to other channels known as alternate channels. Recently the contribution from alternate channels is increasing. In this context, Bank assurance increased and the no of banks as insurance partner has gone up. Both Public sector banks and Private Banks have come up with their insurance partners.
Broking and corporate agency has their own way of doing the business. Individual and institution as corporate agents has helped agency to increase the revenue. At the same time, we have also taken the help of rural development organization such as NGOs, Trust and SHG members to cover the rural area. Finding the right distribution channel for the customer is a trouble area. All these have demanded a high skill in management.

Difficulty in designing Marketing Mix: Marketing mix refers the combination of all P‟s to make the market attractive. Innovation in product which invited many unit linked policies was the centre of attraction for all. Low premium due to large no of players sometimes were uncomfortable for all. The entire banking industry is advanced in the communication strategy. This has compelled insurance players to practice innovative communication strategy including advertisement. So is not only product, but a balanced marketing mix is required for the industry with modern trend.

Regulatory trend: The Indian regulator has introduced rules and regulation from to time to control the entire industry. Recent changes in the cap on ULIP charges have created havoc and the contribution of ULIP to entire policy has decreased. In order to provide better service, the regulator has come with few changes. Servicing of orphan policy, more focus on long term are few examples where the insurer are finding difficult. Standardization of the proposal form is another step by regulator. So the insurers are facing many challenges in the area of product, price, distribution and taxation.

On line policy: Internet and technology has helped a lot to insurer. Now policy procuring through on line is cheaper than buying the same plan from agent. The major problem is not getting the support from the agent for that policy, if there is a claim or maturity. The person has to keep direct contact with the company.

Claim Management: From 2010, the no of advisors have decreased in the industry. The no of agents declined 29% from March 2010 to March 2013. Also it is expected that more agents will leave the industry. Under this situation, Claim management will be tougher for the companies. As people buy insurance because of the face value of agents, assistance of them is highly essential for good business

Customer Servicing: From the year 2013, it is very clear that traditional plans have gained more weightage over ULIP. As traditional plans are long term products, insurer need to focus more on this. Customer retention and servicing is the key to remain in business. Even if in new pension plan, the capital protection features demands more policy servicing. Here investment and servicing are important for the companies. Above all, Policy administration is the most difficulty area to provide customer servicing.

FDI and growth: Foreign direct investment and insurance industry is more debated and controversial one, the proposal to hike it from 26% to 49% is long term pending with government. In a first major reforms initiative by the Modi Government gave a go-ahead to FDI cap hike in insurance to 49 per cent with a rider that management control will remain in the hands of Indian promoters. Insurer are finding easy to continue investing in business. Additional fund is highly required for this capital intensive industry.

Recommendations

From the above discussion on findings, we came across few novel ideas. Life insurance in India is in growing stage and to maintain it, the following five points" are to be considered

- Corporate must go to the basics of service marketing such as "under promise and over delivery"
- Customization of offerings, mainly in product and distribution
- "Pockets of service" is to be done for quicker service and other operation
- Advanced knowledge in the insurance is to be imparted to the employees in Insurance industry
- "Digitalization and Relationship" is to be kept in policy marketing

Conclusion

The insurance industry plays a vital role in the financial sector. The insurance companies, with their accumulated funds from premiums, invest in ways that contribute to the growth of the economy. Life insurance business in India needs a special care as compared to other business. This industry is going to face more challenges due to change in economy and employment. More no of players around the world have planned to enter into India looking to the potential available here. Probably understanding the customer expectation and attitude for this product is the important. There is time to re-engineer the business model. For life insurance, it is time to re-commit itself to customer centric behavior, product solutions based on consumer needs, ethical market conduct, transparency and governance, the growth will be the natural outcome for now and years to come. Despite strong improvement in penetration and density in the last 10 years, India largely remains an under-penetrated market. The market today is primarily dependent on push, tax incentives and mandatory buying for sales. There is very little customer pull, which will come from growing financial awareness and increasing savings and disposable income. In the long run the insurance industry is still poised for a strong growth as the domestic economy is expected to grow steadily. This will lead to rise in per capita and disposable income, while savings are expected to be stable. The future of the insurance industry in India looks promising owing to several changes in the regulatory framework, technological advancements, government support, and increasing awareness. The insurance industry in India is likely to introduce new trends like product innovation, multi-distribution, better claims management, and regulatory trends in the Indian market as incomes rise and purchasing power and household savings grow exponentially. According to a recent research report by Swiss Re, the Indian insurance industry is poised to become the sixth largest market by 2032.

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