



Liberalisation Of Insurance Sector & Its Impact On LIC- A SWOT Analysis

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The economic growth and development of any country depends to a large extent on the mobilization and utilization of national savings. In this perspective, insurance sector as a channel promotes financial stability, and acts as lubricant that moves the wheels of the economy and enables the citizens enjoy a better quality of life. Availability of long term funds not only triggers trade and commerce but also helps in building infrastructure projects which fuels overall economic growth and wellbeing of the people.

Keywords : Insurance Sector, LIC.

Introduction

Insurance is one of the instruments designed to deal with risk through sharing. In its simple aspect it is imbued with two fundamental characteristics, viz., transfer of risk from one group to another group, and facilitates sharing of losses, on some equitable basis, all members of the group. The importance of insurance is twofold: (i) From individual's point of view - insurance is an economic device whereby the individual substitutes a small certain cost for a large uncertain financial loss that would exist if it were not for the insurance, and (ii) From social point of view - insurance may be perceived to be an economic instrument that reduces eliminates risk through the process of combining a sufficient number of homogeneous exposures into a group and makes the losses predictable for a group as a whole.

Insurance has a key role to play in stabilizing the economy, trade, and commerce. Insurance is a contingent service, whose purchase is not an end in itself, but rather complementary to or required in connection with the production of goods and other services. Together with other economic services, insurance is of primary importance both in regard to national economy and international trade. The article aims to know the reflections of Liberalization of Life Insurance Sector on Life Insurance Corporation of India.

Concept Of Insurance

In our daily life, whenever there is uncertainty there is an involvement of risk. The instinct of security against such risk is one of the basic motivating forces for determining human attitudes. As a sequel to this quest for security, the concept of insurance must have been born. The urge to provide insurance or protection against the loss of life and property must have prompted people to make some sort of sacrifice willingly in order to achieve security through collective co-operation. In this sense, the story of insurance is probably as old as the story of mankind.

Insurance may be defined as a contract (called policy) in writing under which one party (called insurer) agrees in return for a consideration (called premium) to indemnify the other party (called insured) against the loss or damage suffered on account of an uncertain future event or contingency

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or to pay a specified sum on the happening of a specified event. Broadly insurance contract can be divided into life and non-life insurance.

Life insurance in particular provides protection to household against the risk of premature death of its income earning member. Life insurance in modern times also provides protection against other life related risks such as that of longevity (i.e. risk of outliving of source of income) and risk of disabled and sickness (health insurance). The products provide for longevity are pensions and annuities (insurance against old age). Non-life insurance provides protection against accidents, property damage, theft and other liabilities. Nonlife insurance contracts are typically shorter in duration as compared to life insurance contracts. The bundling together of risk coverage and saving is peculiar of life insurance.² Life insurance provides both protection and investment.

Insurance is a boon to business concerns. Insurance provides short range and long range relief. The short-term relief is aimed at protecting the insured from loss of property and life by distributing the loss amongst large number of persons through the medium of professional risk bearers such as insurers. It enables a businessman to face an unforeseen loss and, therefore, he need not worry about the possible loss. The long-range object being the economic and industrial growth of the country by making an investment of huge funds available with insurers in the organised industry and commerce.

Liberalisation Of Insurance :

The economic growth and development of any country depends to a large extent on the mobilization and utilization of national savings. In this perspective, insurance sector as a channel promotes financial stability, and acts as lubricant that moves the wheels of the economy and enables the citizens enjoy a better quality of life. Availability of long term funds not only triggers trade and commerce but also helps in building infrastructure projects which fuels overall economic growth and wellbeing of the people. Infrastructure in this context not only means power projects, ports, roads, railways, communication etc., but in its more comprehensive sense of education, primary health, housing, supply of potable water and appropriate sewage and waste management system. These require huge amount of long term savings which could be harnessed through insurance and pension funds.

It is worth mentioning here that it was in 1990, the Government felt the need for reforming the industry for providing better comprehensive coverage to the Indians and also to increase flow of long term financial resources to finance the growth of infrastructure. According to the “Rakesh Mohan Report - 1997” the estimated requirement for infrastructure projects in India was about US \$ 2823 billion over the next 10 years (i.e. upto 2007). The inflow of long-term funds such as – Pension funds, Provident funds and life insurance funds were only US\$ 2.4 billion.

The comprehensive regulation of insurance business in India was brought into effect with the enactment of the Insurance Act, 1938. It tried to create a strong and powerful supervision and regulatory authority in the Controller of Insurance with powers to direct, advise, investigate, register and liquidate insurance companies etc. However, consequent upon the nationalisation of insurance business, most of the regulatory functions were taken away from the Controller of Insurance and vested in the insurers themselves. The Government of India in 1993 had set up a high powered committee by R.N. Malhotra, former Governor, Reserve Bank of India, to examine the structure of the insurance industry and recommend changes to make it more efficient and competitive keeping in view the structural changes in other parts of the financial system of the economy.

Malhotra Committee's Recommendations

The committee submitted its report in January 1994 recommending that private insurers be allowed to co-exist along with government companies like LIC and GIC companies. This recommendation had been prompted by several factors such as need for greater deeper insurance coverage in the economy, and a much a greater scale of mobilisation of funds from the economy for infrastructural

development. Liberalisation of the insurance sector is at least partly driven by fiscal necessity of tapping the big reserves of savings in the economy. Committee's recommendations were as follows:

- ◆ Raising the capital base of LIC and GIC upto Rs. 200 crores, half retained by the government and rest sold to the public at large with suitable reservations for its employees.
- ◆ Private sector be granted to enter insurance industry with a minimum paid up capital of RS.100 crores.
- ◆ Foreign insurance be allowed to enter by floating an Indian company preferably a joint venture with Indian partners.
- ◆ Steps be initiated to set up a strong and effective insurance regulatory in the form of a statutory autonomous board on the lines of SEBI.
- ◆ Limited number of private companies to be allowed in the sector. But no firm be allowed to operate in both lines of insurance (life or non-life).
- ◆ Tariff Advisory Committee (TAC) is delinked from GIC to function as a separate statutory body under necessary supervision by the insurance regulatory authority.
- ◆ All insurance companies be treated on equal footing and governed by the provisions of insurance Act. No special dispensation is given to government companies.
- ◆ Setting up of a strong and effective regulatory body with independent source for financing before allowing private companies into sector.

Changing Scenario In Insurance Sector After Globalisation

The appointment of a committee on Reforms in the Insurance sector in April, 1993, by the Govt. of India, under the Chairmanship of Shri. R.N. Malhotra, former Finance Secretary and the Governor of Reserve Bank of India, suggested and recommended; structural changes, a policy frame work, an effective & efficient Regulatory frame work, to open the field for private players to bring in a healthy competition while bringing in innovative products, services and systems.

The Benchmark Report of the Malhotra committee resulted in a revolutionary change of Insurance sector with a paradigm shift in the perceived differential value of insurance as a product, from customers' point of view. Malhotra Committee, the pillar for liberalisation stated that "Customisation would be one of the key advantages of privatisation".

The Insurance sector was opened up for private participation by establishing IRDA (Insurance Regulatory & Development Authority) in 1999 and private players made their entry from 2000. There are 13 private players as on date in life insurance business in India, most of whom are multinational giants with high expertise, innovative products and CRM strategies on joint venture basis with Indian companies and banks.

After the entry of private players from the year 2000, the difference created by the new players is self evident. The business which was once controlled by monopolistic LIC to almost 100% was reduced considerably. As per the figures available with IRDA for the period ended August, 2005, the 13 private players have grabbed nearly 24 percent market share from LIC in terms of premium underwritten as against 17.70 percent in August, 2004.

Table-1
Private Joint Venture Insurance Companies

S. No.	Company	Origin	
		Indian	Foreign
1.	ICICI Prudential	ICICI	Prudential (UK)
2.	Max New York Life	Max	New York life (New York)
3.	HDFC Standard Life	HDFC	Standard life (UK)
4.	Allianz Bajaj	Bajaj	Allianz Holding (Germany)
5.	Birla Sun Life	CKBirla Group	Zurich insurance (Switzerland)
6.	Tata AIG Life	Tata	American Int.Group (USA)
7.	OM Kotak Mahindra	Kotak Mahindra	Chubb (USA)
8.	AVIVA LIFE	Dabur	Allstate (USA)
9.	ING Vysya Life	Vysya Life	ING (Netherlands)
10.	SBI Life Paribas bank)		SBI Bank Cardiff SA (BNP
11.	AMP Sanmar	Sanmar Group	Gio (Australia)
12.	MetLife	MA Chidambaram	Met Life (USA)
13.	Sahara Life	Sahara India	

Source: Deccan Herald, dated May 14, 2005 and The Economic Times, 21 March 2004.

The packaging of new products and the effective use of delivery channels, have woken up the State incumbent (LIC) to get prepared for stiff competition.

In the post liberalization scenario, there have been attempts to spread the message of insurance both by the Regulators as well as players themselves through their expertise campaigns and message spreading. One very significant change that is seen in life insurance business is the introduction of Riders. Although riders are nothing new in the field of life insurance and were existing even in the pre liberalized regime in the form of accident benefits, premium waiver etc. There has been a major thrust in this direction after the opening up of the insurance industry. Some of the life insurers have very few base products to show, but by making different combinations with different riders, they are able to eventually come out with several products. Certainly there has been a plethora of new and innovative products offered by new players, although some other specialized products from their international products stable are yet to come out- e.g., some health insurance products.

Table-2
Rural Population And Insurance Penetration

Total population as on July 2002	1.05 billion
Rural population	72.22%
Urban population	27.78%
Insurance penetration in rural markets	20.00%

Source: IRDA Annual Report 2003/04.

However, the expanding range of products can become meaningful only if accompanied by a massive consumer education campaign. The trends in developed economies where people not only live longer and retire earlier are now emerging in India. Where once, the fear was one of dying too early, now, with increasing longevity, the fear of one of living too long and outliving one's assets. With the breakdown of traditional form of social security like joint family system, consumers are now concerned themselves with the need to provide for a comfortable retirement.

An upsurge in consumer awareness is putting immense and unavoidable pressure on the insurance industry. Today, while the boundaries between various financial products are blurring, people are increasingly looking not just at products, but also total integrated financial solutions that can offer stability of returns along with total protection.

Table-3
Market Share of Life Insurance Insurers as on August, 2005

	Name of Player	Market Share (%)
01.	Bajaj Allianz	4.73
02.	ING Vysya	0.54
03.	AMP Sanmar	0.46
04.	SBI Life	1.46
05.	Tata AIG	1.66
06.	HDFC Standard	2.98
07.	ICICI Prudential	6.91
08.	Birla Sunlife	1.72
09.	Aviva	1.08
10.	Kotak Mahindra	0.71
11.	Max New York	1.28
12.	Met Life	0.37
13.	Sahara Life	0.03
	Private Total	23.93
14.	LIC	76.07
	Total	100.00

Source: IRDA Reports

Instead of categorizing insurance by class the focus may shift more to the period for which the cover was offered and the risk underwritten. There is also demand for permitting the industry to underwrite pure risk and leaving investment decisions to the policyholders.

A Swot Analysis Of LIC After Liberalisation

LIC of India has travelled a long way, and it grown by leaps and bounds. The growth during 1957 to

2003 is well entrenched as shown in Table-2.

Strength & Opportunities To LIC

Opening up of insurance sector to private players was necessary in the context of liberalization of financial sector. Particularly opening of life insurance sector is very significant one due to the continuation of monopoly power of Life Insurance Corporation of India (LIC). Liberalization is beneficial to LIC or not? Its impact on LIC has been studied under opportunities and challenges.

Untapped Market: Only 22 per cent of life insurance market is covered. Rural and health care insurance, which presently is untapped, will contribute significantly to the growth of insurance business. In India less than one percent of the population under health cover, when compared to US where three out of four people are covered by health insurance. According to Shunu Sen, CEO, Quadra Advisory, the rural insurance should be looked upon as an opportunity and no obligation. It is important to take advantage of the immense potential that resides in the rural sector. Stuart Purdy, CEO, Dabur CGU Life Insurance, says it is essential to address the issues of social security policies and risk management both in the urban and rural sectors of India.

*** Trusted by Customer Credibility / Brand Equity** - LIC has an edge over private players in terms of trust and brand equity, since it is the India's trusted service brand as per annual brand survey 2003 conducted by The Economic Times and ORG Marg. This can be taken as advantage by the company. It should become proactive, aggressive and reach out the people. After all LIC knows India better and why not this advantage be put to use?

*** Wider Agency Net Work** - True, LIC has a wide network of branches and agents. But their reach is restricted and the business generated by the agents fits into the pure to analysis only five per cent of agents generate as much as 80 per cent of business and 95 per cent of agents account for just 20 per cent of business. Make these 95 per cent agents to become productive is an opportunity to maintain market leadership.

*** Deep Rural Reach** - LIC of India can reach rural areas by making use of available wider agency network. For private players it may not possible to reach to rural areas and get untapped business. LIC take the weakness of private players as an opportunity.

*** Premium Charged can be Lowered** - LIC policies are perceived as costly (high premium before liberalisation) by policyholders. Of course it might be charging high premium, since it is the only one company offering life insurance. Charging reasonable premium and attracting customers may be difficult to new players. But it is easy for LIC and it has to (required by liberalisation) lower premium on policies and take this as opportunity for growth of business.

*** Ability to Pay High Bonus on 'With Profit' Policies** - LIC is an old company enjoying monopoly and it has been running under high profit track record. At present it can offer high bonus on profit schemes with the comparison of newly entered private players, for whom it is very difficult to pay high bonus.

*** Spread of Risk** - LIC has the advantage of spreading the risk over its policies, since it is the market leader with sale of more policies. It can therefore absorb any loss. For example,; terrorist attacks and consequent deaths and spread the loss over other policies. This advantage is not available for other players, since their market share is low.

Strong Infrastructure : Internet based business. has great potential in life insurance business in coming years due to its convenience but it will depend on the development of the basic infrastructure. LIC being an old company with good infrastructure and award winner (second largest PC user in the country and best IT user in the Insurance Sector for the year 2002 by NASSCOM and indiatimes.

com) it can develop its future business. It is an opportunity which LIC can take advantage of.

Varishtha Pension Plan - LIC of India can this scheme as opportunity and it could continue to huge market share since, LIC is the only company that allowed to sell, “Varishtha Pension Sima”, a pension scheme, for senior citizens offering an assured return of nine percent. Though the scheme is designed, promoted and guaranteed by the Centre, private players were not allowed to market it. LIC’s 47 per cent of new premium income in April-September 2003, came from this scheme only. Hence, it is great opportunity for LIC to increase the market share since it is having huge potential.

* **Economies of scale** - LIC of India has the benefit of economies of scale when compared to private players. Ensure large corpus of funds for investment, and ability to act as reinsurer.

* **Emerging Indian Middle Class** - India Shining. With development of economy majority of the low class people are entering into the middle class with surplus funds. These surpluses may motivate them to go for life insurance policies. Hence, LIC has to take this as opportunity to maintain market leader position or to increase the market share.

Weakness & Challenges To LIC

Apart from the above-mentioned opportunities, LIC have to face a number of challenges in the liberalized market. They are:

* **Expectation of the Consumers** - At present, LIC is having about 60 products and only few of them are suitable to consumer needs. Hence, LIC will have to offer innovative products to the customers. The consumers are particularly expecting health plans, term Insurance and investment products like unit-linked insurance, from the life insurers. Hence, LIC has to come up with the innovative products, which are suitable for various customers.

Consumer Education - After liberalisation, the market is flooded by a large number of products by a fairly large number of insurers operating in the Indian market. Even with limited range of products offered by the LIC the customers are confused in the market. Their confusion will further increase in the face of a large number of products, which are offered by the new players. The existing level of awareness of the customers for insurance products is very low, it is SD because only 62 per cent of the population of India is literate and less than 10 per cent are well educated. Even the educated customers are ignorant about the various products of insurance. Hence, it is necessary that LIC should undertake the extensive plan for education of customers. This will result in making the awareness of the new insurance for, which leads to expansion of market.

* **Brand Building** - Branding is the new key challenge in the financial services industry. LIC has been successful in creating a strong brand. In rural India, the LIC is especially synonymous with insurance. But in the wake of competition it has to do a considerable brand building exercise at least in urban India since new players are entered in the market. For brand building the LIC may incorporate four fundamental building blocks, such as legitimacy, distinctiveness, relevancy and consistency. Brand building is not that much easy but companies have to take this as a challenge.

* **E-Service** - Internet has brought about a revolution in the way business is done and insurance is no exception to this. According to a recent research by Tower Group, ‘e-service’ will play a vital role in facilitating the process of servicing insurance products. At present (Tower Group) 60 to 70 per cent of online consumers use the Internet to reach insurance companies and products. The group also expects a significant growth in online sales by 2005 for which contribution made by Generation Y will play an important role. It also expects the personal line property and causality (P&C) premium resulting from online sales to grow significantly by 2005, approaching three to 4.5 per cent, which is more than

the current industry estimates of only two per cent of premium resulting from online sales for 2002.

L1C need to take advantage of 'eservice' to serve the consumers online and ensure that the activities are more than mere marketing drives. A better service could, in the course, pave the way for better selling, but companies require a good infrastructure for this. L1C may need to add additional infrastructure for using e-service as a way to increase sales. Hence, L1C has to take this as challenge and try to go for e-service.

*** Use of Technology** - Technology will play a strategic role in providing a competitive edge - be it in aiding design and administering of products and building life long customer relationships. Technology will facilitate and help create brand positioning says Ritu Nanda, Chairperson & CEO, RNIS College of Insurance and India's top-notch L1C agent. Insurance industry is used to having sophisticated mathematical models and statistics to gauge the risk factor involved in insurance.

Now at a time when every business is using technological devices for up gradation of business, insurance sector is not too far behind.

An Alternative to Reinsurance: Companies are competitive about liberalisation of the insurance industry. New players are offering or proposing to offer customers various insurance products. This tells to consumers, as competition will drive down their prices. How will they manage this? The answer is reinsurance. Reinsurance is a process by which private insurers transfer some part of their risk to reinsurers. That is, the reinsurer reimburses the private insurer any sum paid to the policy holders against the claims lodged. The need for reinsurance assumes importance given the increasing uncertainty faced by individuals and businesses.

For instance, the earthquake in Gujarat and September 11 terrorist attack on pentagon in America. Will private insurers be in a position to honor claims of such magnitude? They have to take this as challenge and they have to in go for transfer of this risk to capital market by structuring Asset Based Securities (ASS) and selling it through a Special Purpose Vehicle (SPV).

Concentration on Rural areas - Malhotra Committee advised that new entrants in life insurance should be required to transact a certain minimum business in rural areas. Not only that advice, there is a lot of untapped market in rural areas. There is need to spread life insurance much more widely and, in particular, to the rural areas, and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them at a reasonable cost, adequate financial cover against risks.

Rural and health care insurance, which presently is untapped, will contribute significantly in growth or insurance business. It is important to take advantage of the immense potential that resides in the rural sector. L1C as a major player in life insurance business with 48,930 rural agents can definitely be taken as opportunity. At the same time this sector provides a number of challenges.

Poor Service - Agents are interested only in the first premium, 57 per cent of respondents believe that L1C follows instruction MAARG, lack of inflexibility of policies. Hence, L1C has to motivate their agents after sales follow up, that may be a challenge to L1C.

Problems of Surveyors - Shortage -of trained surveyors, dishonest, instances of collusion, which can affect the trust, placed in the coy if customers can get better service.

Organizational Structure - Bureaucracy organization, top heavy, agency network unwieldy and difficult to manage, powerful and militant trade union, full in number of actuaries. Management of all these may be a challenge to L1C of India.

Strategies

Following strategies could be used to develop the life insurance business;

1. Creation of insurance awareness among the people,
2. Product customization,
3. Maximize wealth,
4. Tapping the niche markets,
5. Plunge in to the rural markets,
6. Societal marketing,
7. Well established distribution network

Sum Up

Insurance has undergone a massive metamorphosis in the recent years. Insurance, which earlier was perceived to be merely an instrument to avoid tax, has assumed the status of a necessity in one's life. To be successful in the marketing of insurance products, the entire business scenario has to be taken into account. Strategies have to be adopted based on the dynamics of the market trends. As the market moves from the emerging to the emerged, a change in approach is necessary.

In order to have good market performance, customer awareness about the products and prices and financial strength should be enhanced. The company should have a clear vision and mission that should be known to the stake holders like employees, agents, customers, business associates etc., and each one should be clearly directed. The company should design the products, which should satisfy the personal needs of customers with an ample degree of flexibility. To achieve greater insurance penetration, private sector insurance companies have to create a more vibrant and competitive industry, with greater efficiency, choice of products and value for customers. This is addition to developing a brand with trustworthiness.

The foregoing analysis leads us to conclude that the LIC has achieved major breakthrough in mobilising savings of the people and built up a big reservoir being used for financing socio economic schemes of national importance and needs of public and private sector undertakings.

It is also interesting to find that bulk of the Corporations investments is represented by Government securities and loans under socially oriented schemes and projects and only a small proportion has gone to the financing of joint stock companies. Obviously the public sector has bagged more than four fifth of LIC's assistance and the balance one fourth is- shared by other sectors.

The LIC has been playing pivotal role in capital market since its formation. Although only a small share of its funds is used for financing the needs of corporate sector enterprises the magnitude of resources is such that even this small proportion constitutes one of the largest single source of industrial finance in the country.

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