CHAPTER 7
SUMMARY, FINDINGS, POLICY IMPLICATIONS AND CONCLUSION

This research work is done with the broad objective of analysing the various emerging trends and prospects of Indian life insurance sector in the light of strategic sectoral reforms. The components of privatisation and globalisation incorporated with Indian life insurance industry through the reforms in 2000 absolutely ignited the engine of growth. Yet the quality of the growth, with the proved incapability to insulate from the global economic shocks called for a comprehensive revisit. This research work is an attempt in that direction. The study has undertaken serious efforts to analyse the market to diagnose both supply and demand side bottlenecks, within the constraints set by the availability of desired data.

7.1 Summary

The process of de-monopolisation has opened wide vistas in Indian life insurance scenario with the advent of the private players. The socio-economic configuration of Indian society and its dynamic change pattern also offer enormous possibilities for the inflow of FDI. The research problem of the study is the utilisation of the opportunity to look back and review the performance of post-privatisation decade and analyse the expectations of the industry at large and the extent to which the aspirations and commitments have been achieved or addressed.

The theoretical cross-section of economics of life insurance is an earnest attempt to dissect the theoretical underpinnings in a systematic manner. As a complex financial product, life insurance fills its market with series of information asymmetry which
breeds market imperfections. Here, this study employed the review of different market structure analysis in Economics to test the nature of life insurance market. An attempt to review various consumption function theories in Economics based on life insurance consumption, identifies that ‘without life insurance the life time consumption pattern would be different and involve less utility’. Being an important contractual saving device, life insurance stimulate financial stability, indemnify individual risks, act as viable substitute for government social security system, and facilitate risk transfer and faster efficient capital allocation.

*Historical evolution of life insurance business in India* is examined in the study narrates the time path developments that lead to the birth of present reforms. During the period 1956-2000, life insurance business in India was coterminous with the state owned LIC. Efforts have been taken in the study to incorporate the relevant data for the period 1956-2000 related to the insurance and investment behaviour of LIC. The number of new policies were sold each year went up from about 0.95 million a year in 1957 to around 22.49 million in 2001. On a per capita basis, there were 0.0023 new policies in 1957 compared with 0.0218 new policies in 2001. Thus when we examine the new policies sold; there has been a tenfold increase during the period. In nominal terms, during that period, the total income of LIC grew 700 fold. Despite the fact that the industry has grown after nationalization in many terms, several weaknesses have also been noticeable, particularly after the liberalization of the economy since 1990s and the changing requirement of the industry in its wake. In 2000, India with a share of 16 per cent of World population covered only 0.3 per cent of global insurance market and ranked 78 in insurance density and 52 in insurance penetration. Life insurance penetration was 1.77 per cent and that of non-life was 0.54 in India and density was 7.6
and 2.4 in dollar terms respectively. In comparison, this was much lower than
developed and other developing countries. Out of every 100 persons in India only 2.6
were protected by life insurance. Generally, an urge for innovations to capture new
markets was there in the Indian life insurance sector. The Malhotra Committee Report
(1994) set the tone of change in the Indian insurance sector and deregulation followed
subsequently in the form of IRDA Bill in 2000.

The privatisation guided Indian life insurance industry to a better global platform. The
Indian life insurance market became the 9th largest in the Global ranking of 88
countries in 2010 and 4th in Asia after Japan, China and South Korea. The life insurance
premium volume of India reached 67810 million US $ in 2010 and its share in the
Global business was 2.69 per cent. India’s real (inflation adjusted) growth rate of life
insurance premium was 4.2 per cent, higher than the global growth rate of 3.2 per cent.
Life insurance penetration in India was 1.77 per cent in the year 2000, which has been
gradually risen to 4.4 per cent in 2010; higher than the World average. But other
emerging economies are showing far greater life insurance penetration. India’s life
insurance density was mere 7.6 US $ in 2000, which galloped to 55.7 US $ at the end of
the post reform decade. However, India ranks 76th only in the Global ranking of 88
countries.

The study identifies strong future potentiality of Indian life insurance sector in the light
of certain emerging economic and demographic dynamics. India could witness a
dramatic expansion of its middle class, from 5-10 per cent of its population to 90 per
cent in 30 years. With a population of 1.6 billion forecasted for 2039, India could add
well over 1 billion people to its middle class pool. In fact, the mean per capita
household expenditure in 2005 was just US$3.20 per day. But by 2015, half the
population will cross the US $5 per day line. Between 2015 and 2025, half the population will surpass the US $10 per day line and expected 75-110 million entrants to India’s labour force pool over the next decade. The average Indian household incomes would triple over the coming decades making India the world's fifth largest consumer economy by 2025. Although India has a poor ranking of 119 in the Human Development Index (HDI), it ranked 6th in terms of average annual HDI growth over the 1980-2010 period, showing substantial improvement. In India, only 11 per cent of pension market has been covered so far and 89 per cent workers are still uncovered by any formal social security system, which indicate a huge Pension Market potential, particularly in the unorganised sector. Transforming these opportunities to the desired outcome, the industry needs critical reviews on the performance of the past decade and the resultant lessons.

While analysing the dynamics of life insurance sector and the differences of private-public business the study makes impartial comparisons between public and private sector operational behaviours under the regulatory control of IRDA during 2000-2010. As per the result of CAGR estimation with OLS Regression related to real growth of business volume(at constant 1999-2000 price) while public sector bears a CAGR of 17.48 per cent in new business, the private sector could achieve 118.77 per cent of CAGR. And the overall industry could gather a 25.89 per cent of CAGR of new business during the decade. Compared to the new business growth, private sector is adorned with very high CAGR of 201.99 per cent in renewal premium. The corresponding figures of the Public sector and the Industry are 12.2 per cent and 17.48 per cent respectively which are less compared to the new business performance. The renewal premium growth rates of all years of the decade recorded under the private
category are higher than that of the public sector. Even though the upsurge in the ULIP business in 2006-07 made positive buoyancy in the declining renewal growth rate, the global recession of 2008 and the resultant stock market crash arrested and reversed the growth path. The robust CAGR of 19.5 per cent in the total premium collected by the life insurance industry is the ever recorded highest growth rate considering all the decades of life insurance business in India since 1956. The registered growth rate of 135 per cent under the private segment is much greater than that of 14.8 per cent of LIC in total premium. The Global recession of 2008 made severe blows to the volume of life insurance business, but in the recovery process, public sector reveals their strength to reach positive growth.

As the process of the entry of newer and newer private insurers into the market goes on, the market pie is going through the dynamics of size and slicing process. Private life insurers could achieve almost 30 per cent total premium market share at the end of the decade. Through out the decade, ICICI Prudential has succeeded in maintaining the private market leadership with their highest market share related to total premium. But their share has been declining since the inception period i.e. from 92.55 per cent in 2000-01 to 20.83 per cent in 2009-10. The continuous enlargement of the new business market share of the private sector has faced a set back in 2009-10. The new business market share of private life insurers slipped to a lower percentage of 34.92 compared to that of the preceding year’s 38.87 per cent. Except two financial years of the decade, ICICI Prudential has commanded to maintain the highest new business share, while 2005-06 and 2009-10 are the years marked for Bajaj Allianz and SBI Life respectively.

The study makes reviews on the trends marked in the composition of distribution channels and their productivity issues. Since the post-privatisation period, the ambit of
distribution horizon expanded with the introduction of institutional agencies. To private 
life insurers, the share of tied agents in the distribution has been contracted to 50.67 per 
cent, while that of bancassurance multiplied from 3.92 per cent in 2002-03 to 24.88 per 
cent in 2009-10. Direct business and Non-banking Corporate agents have been 
gathering momentum in the private domain with 10.73 per cent and 10.28 per cent 
respectively. The premium collected per policy through tied agents regarding the public 
sector domain is much lower than that of private sector companies due to the difference 
in the product-mix of business. But the analysis reveals the clear cut upper hand in the 
productivity of agents tied to public sector over that of private sector. Within the 
private, the lowest performance of tied agent productivity is marked against Met Life 
Insurance Company, while the highest performance was of SBI Life. For private sector, 
the number of policy per agent has declined from 5.69 to 4.41 during the last four years 
of the decade 2000-2010. The corresponding figures of LIC are 33.76 and 27.15 
respectively. The same trend can be seen in the premium per agent also. To the 
industry as a whole it has declined from an average of 21.22 policies per agent to about 
15.12 policies per agent during the period. Premium per agent has similarly declined 
from about 2.74 lakhs to 2.19 lakhs. Agent productivity was highly inconsistent in 
public sector than the private. The percentage of productivity loss, generally undertook 
in 2008-09 is also greater in public sector. But in the upsurge from the recessionary 
stage, LIC succeeded even though there was a rise in the agency force occurred from 
1344856 in 2008-09 to 1402807 in 2009-10. At the same time, a decline of agency 
force was registered in the private domain from 1592579 to 1575476 in the respective 
period. In nominal terms, while premium per agent has declined by 20 per cent, a 
reduction of 28.75 per cent in policy per agent is recorded in the industry during the 
post-reform decade.
The erosion of persistency of tied agency identified in the industry not only pave the way for the waste of valuable resources in the form of training but acts as an onslaught upon the obligation of customer service also. At the end of the decade, the lowest renewal ratios recorded are with Max NewYork and ING Visya, followed by the market leaders in the private domain - ICICI Prudential, Bajaj Allianz and SBI Life. For the private as a whole, the ratio clusters around 60 per cent. The turn out ratio of 40 per cent is the outcome of the poor agent productivity. The relative position of LIC is superior. During the decade, the average productivity of a public sector life insurance office has increased by around five times and the upper hand of public sector has further strengthened since 2006-07. The highest public sector productivity per office recorded in the decade was Rs 24.43Crores in 2007 and that of private sector was Rs 6.92 crores in 2005. The declining trend in the private office productivity recorded since 2005 was the outcome of high intensive growth of private sector office network since that year without matching the corresponding scalability of business.

The study explores the size, magnitude and drivers of profitability. During the decade, LIC recorded an enviable net profit growth from Rs 316.65 crores in 2000-01 to Rs 1060.72 crores in 2009-10, while the private sector is forced to wed up a net loss of Rs 43.69 crores to Rs 2032.63 crores in respective years. During 2009-10, out of the 22 private life companies, seven revealed profit after tax as compared to four in the previous two years. Private sector together fetched a loss, which is almost double the amount of profit earned by LIC. From 2000-2010 the net profit generated by the public sector has multiplied by more than three times. The study identifies various factors such as commission expenditure ratio, operating expenditure ratio, lapsation and fund management efficiency, as the major drivers of profitability.
From the beginning to the end of the decade, the commission expenditure ratio which is a major driver of profitability, has recorded a continuous decline under both public and private domains which can be considered as a very healthy trend in the industry as a whole. In 2009-10, for private life insurers the ratio varied from a low 3.65 per cent of ICICI Prudential to over 20 per cent of the new entries like Aegon Religare, Canara HSBC and Future Generali. The commission expenditure ratio for the industry has reduced from 9.09 per cent in 2000-01 to 6.84 per cent in 2009-2010 while that of the public sector has registered a slip from 9.08 per cent to 6.51 per cent. The yearly declining rate is higher in the private sector as a whole, where they have succeeded to control the ratio from 20.51 per cent in 2000-01 to 7.61 per cent in 2009-2010. From this observation, the study intends to predict a convergence stage of commission expenditure ratios of private and public insurers in the coming years. Since commission rates are very high in linked business, linked - non linked composition ratio in the total life business is very important in the determination of commission per policy. The study finds a remarkable disparity in terms of commission per policy size existing between the private and public life insurance business. During 2005-06 it was Rs 380.63 for LIC and Rs 2139.42 for private in total. Thereafter a continuous growth can be seen in the public scenario while a reverse trend in the private. The many fold size difference of per policy commission between private and public may be of two reasons-difference in commission rates and the disparity in the share of linked business in the total business. For the private sector, the heavy domination of linked business in the total business, clubbed with high commission rates paved the way for the emergence of high commission per policy. The effect of expanding share of linked business from 2.1 per cent in 2005-06 to 17.85 per cent in 2009-10 related to LIC, is reflected in their growth of commission per policy from Rs 380.63 in 2005-06 to Rs 434.68 in 2009-10.
The operating expenditure ratio related to LIC is much lower than the industry average because of their large economies of scale. The industry average of operating expense was 10.77 per cent in 2000-01 and 10.85 per cent in 2009-10. The corresponding figures of LIC were 10.62 per cent and 6.58 per cent. At the end financial year of the decade, the only private company which found close to LIC figure and below the industry average is SBI Life with 6.54 per cent of operating expenditure ratio. Out of 22, for the 16 of the private companies, the ratio is over 20 per cent. On average, almost ten times difference can be seen between LIC and private while the industry figure is approximately double to that of LIC related to operating expenditure per policy. Unlike the commission analysis, there is no rationality to compare the operating expenditure of LIC and private because of the operating history of LIC which is stretched by more than half a century. The comparison within the private, points out the trend of heavily declining operating expenditure per policy of dominant players like SBI Life, Bajaj Allianz etc and the outcome of their attempt can be read from their entry to profit zone. The major exception to this is in the case of ICICI Prudential. But to them also, a marginal decline can be seen with effect from 2007-08 financial years.

The lapse ratio is not only relevant to the profitability, but to the concerns over the consumer satisfaction also. The high lapse ratio is an indicator of mis-selling. Except SBI Life and HDFC Standard, almost all other private life insurers bear alarming size of lapse ratio. The affordable and reasonable lapse ratio recorded in the industry such as 5.37 per cent in 2009-10 is at the blessing of LIC’s 4 per cent. The 81 per cent lapse ratio of ICICI Prudential is not at all justifiable and requires regulatory interventions to explore the reasons. The mounting lapse ratio prevailing with the private domain, as
revealed by the study, showers bits of pessimisms upon the healthy future of Indian life insurance industry.

The magnitude of investment return ratios expose the vulnerability of Indian life insurance industry regarding the threshold of global economic shocks and the resultant stock market crashes. All the existing private players had to wed huge negative investment returns in 2008-09. LIC is among the few companies that have retained a positive investment return throughout the decade, even though it has also been affected by the market downswing. This study states that, the inconsistency and unpredictable fluctuations prevailing in the investment return of private Life insurers is not only an outcome of fund management inefficiencies, but that of the compositional structure of different categories of products in the business such as excessive weight to ULIP products. The Linked business accounts for almost three fourth of all policies in force of private sector life insurers. Regarding LIC, more than 80 per cent of their business-in-force, clusters around non-linked business. But in the LIC business also, a gradually generating trend in favour of linked (ULIPs) policies can be seen.

Death claim settlement ratios of LIC scored more than 96 per cent except in the year 2008-09, where the company could maintain a appreciable per cent of 95.48. The ratio of repudiations to total reported claims were being kept below 1.5 per cent by LIC in all these years. The total number of death claims unpaid (repudiated and kept under pending) was less than 5 per cent. Compared to LIC, private insurers rejected a large number of claims. But their repudiation ratio has declined from 13.98 per cent in 2006-07 to 7.6 per cent in 2009-10. Under the private domain, the death claim repudiation ratio scored during the period ranges from 3.27 per cent of ICICI in 2009-2010 to 27.78 per cent of Tata AIG in 2008-09. As a result, a high disproportion is obviously
noticed between the complaint share and market share of business between private and public.

The study attempts to explore the size and composition of total investment generated in the life insurance scenario of India during the post liberalisation decade. During the first decade of post-liberalisation period, the size of investment of life insurance companies in India increased from Rs 1,94,010 crores in 2000-01 to Rs 12,05,155 crores in 2009-2010. While the investment of public sector has increased from Rs 1,93,283 crores to Rs 9,85,028 crore, the same for private companies increased from Rs 726.61 crore to Rs 2,20,127 crore during the same period. As on 31st March 2010, the share of LIC in the total investment of life insurance industry was 81.73 per cent. The share of Pension /Group Fund remains in a stationary level from its inception period. On the other hand there has been significant increase in the share of ULIP fund from 0.1 per cent in 2002-03 to 27.52 per cent in 2009-10. This change is complimentary to the enhancing volume and share of linked business in the total business. Taking into the consideration of ownership category wise comparison, the striking point is the decline of life fund share under private domain from 100 per cent in 2000-01 to 15.05 per cent in 2009-10. On the other hand, there occurred a very fast growth in ULIP fund from 11 per cent in 2002-03 to 80.39 per cent in 2009-10. The trend is not so different in the public domain also, where we find that when life fund share has been slipped from 100 per cent in 2000-01 to 71.01 per cent in 2009-10, the corresponding change in ULIP fund share marked a boom from .01 per cent in 2002-03 to 15.7 per cent in 2009-10. The statistical analysis on realised investment behaviour under life fund category of life insurers in India finds that all categories of life insurers in India have performed their investment operations inconsistently, but with different degrees. With Box Plot analysis
the study analysed the deviations of public and private insurer’s ‘Life fund Investment portfolio’ from the regulatory target, which states that all life insurers in India do not strictly follow the Investment Regulation in their Investment portfolio of Life fund or controlled fund. The year-wise deviations are also calculated and analysed.

The study undertakes an analysis to gather the reflections of macroeconomic realities upon life insurance business in India during the post-insurance reform period of 2000-2010. An earnest attempt is placed to shed light upon the interdependence of life insurance business and other macroeconomic variables. Karl Pearson’s Correlation coefficient has been carried out with the data relating to Gross Domestic Product, Gross Domestic saving, Household Savings, Household Financial Savings and Personal Disposable Income on the one hand and life insurance business related variable ‘Total life insurance premium’ on the other hand. The study also undertook an analysis with another set of financial and demographic variables such as Bank saving rate, Sensex Price Index and Population on the one hand and new business premium of life insurance business on the other hand. Gross domestic saving (.987), Household Savings(.989), Gross Domestic Product(.995), Personal Disposable Income(.982), Household Financial Savings(.972) are highly correlated with total life premium and are moving in the same direction. And all correlations are significant at 1per cent level. In the case of new business premium also, except interest rate (.364), all others such as Sensex Price Index(.974) and Population(.940) are highly correlated with 1per cent significance level. High correlations, however, does not explain whether the association is due to the change in the respective variables. To study the cause and effect relationship, an empirical examination of the different factors’ ability to affect life premium is conducted. For that two separate regressions were run using Ordinary Least
Square (OLS) function. The regression analysis employed in the study establishes that the interrelation is caused by the influence of the variables. Except interest rate, the variables considered explain the variations in total life premium and new business premium during 2000-01 to 2009-10.

The performance of individual Indian States in the life insurance business has not received comparable attention and yet there are very good reasons why such an analysis should be of special interest. This research work made an attempt to offer an analysis of inter-state comparison related to life insurance business in India. Inter-State inequality in the distribution of ‘life insurance infrastructure’ is measured among 28 states in India, in terms of number of office per one lakh population and number of agency per thousand population with the application of Box-Plot Analysis. 28 States have been classified into four groups on the basis of quartile values. The number of individual agency per 1000 population ranged from 1.08 to a high of 5.48. The first quartile reads as 1.39 per thousand which means that 75 per cent of the States in this study bears agency 1.39 per thousand or more. The median is 2.64 per thousand populations. Therefore half the States in the study received 2.64 agency per thousand population or higher. The 3rd quartile tells us that 25 per cent of these states got agency 3.08 per thousand. Related to number of life insurance offices per one lakh people, the first quartile reads as 0.64 per one lakh population which means that 75 per cent of the States got offices 0.65 per one lakh population or more. Between 2nd and 3rd quartile the deviation is relatively high. The 3rd quartile tells us that 25 per cent of these States got life insurance offices numbered 1.43 per one lakh population or more. The distribution tells us that among 75 per cent of States the inequality is not much wide. However, there is high inequality among the 25 per cent of States in the 4th quartile group.
As in the case of infrastructure, the analysis unveils wide disparity in the life insurance spreading across Indian States in terms of ‘per capita new business’ and ‘number of policies per hundred populations’. The Cross Section analysis employed in this study exposes the major economic factors playing behind the disparity across the States. Two separate regressions were run for two dependent variables. The dependent variables are per capita new business premium and number of new business policies per 100 population in model 1 and model 2 respectively. In both specifications, model explains most of the variations in the dependent variable as indicated by adjusted R$^2$. The adjusted R$^2$ are 0.90 and 0.76 respectively for model 1 and model 2. The ‘F’ statistic shows that both specifications are statistically significant. The scatter plot matrix given indicates that there is no problem of heteroscedasticity in the data. The problem of heteroscedasticity is further verified with the Breusch-Pagan / Cook-Weisberg test for heteroscedasticity in both specifications. The coefficient and significance level indicate that among the three explanatory variables, the impact of per capita income and literacy rates are more prominent than urban to total population ratio. This means that though all three variables are significant to contribute the new business premium and number of new policies, the effect is more prominent in the case of per capita income and literacy.

The study also offers a look at the emerging major regulatory concerns, reforms and other governmental measures to address the ‘capital crunch’ facing by Indian private life insurers, which would govern the ups and downs of life insurance growth path in the years ahead. Commenting about the regulatory movement towards the Risk Based Capital (RBC) as a solvency criterion, the study expresses concerns over the ability of life insurers to gauge the risk levels with their internal models in the Indian context.
The study observes the present corporate control mechanism in India is insufficient, irrespective of the regulatory level of Foreign Direct Investment (FDI). The regulatory revision under consideration to raise the FDI cap from the present 26 per cent to 49 per cent should consider the long term commitment nature and the higher embedded risks of life insurance business than other financial services. On account of the notified regulatory permission to go for Initial Public Offerings (IPO), this study observes that share of IPO as a source of resource mobilisation is weak in the resource mobilisation pattern of corporate sector in India, and shows a negative trend as an outcome of global recession and subsequent stock market crash. Therefore the optimism regarding the immediate effect of IPO upon the capital crunch of life insurance sector under private domain would be shattered. Under the IPO regime, the degree of regulatory measures of corporate governance is vitally important in order to set conditions congenial for the growth of life insurance industry, protection of policy holder interest and retail shareholders.

In the study, the survey analysis on life insurance consumption takes the review of the demand side of the market using a sample of 300 life insurance policy holders. Out of the 401 total products purchased by the 300 respondents of the Survey, the public sector (LIC) dominates with a commendable share of 63.59 per cent. The rest 36.41 per cent products are shared by 15 private life insurers as the Survey could not count even a single product sold by 7 others. The Survey reveals that private players are excessively sticking on linked business, which validates the national scene also. The tied individual agent or advisor is the prominent distribution channel found in the Survey. Out of 401 products, 301 were sold by them. The shares of different channels are as follows. Agents 75.06 per cent, Banks 17.96 per cent, Brokers 4.74 per cent and online direct
business comprised of 2.24 per cent. The Survey points out that internet (Online) yet to take shape as an alternative sales channel. Television is revealed as the highest influencing media of advertisement through this Survey by the selection of 32.67 per cent of respondents, followed by newspapers & magazines with 24.67 per cent. Regarding the income-wise distribution, the highest percentages of respondents (37.33 per cent) include those who are earning Rs 2.51-5Lacs. The higher proportion of middle aged in the total sample of policy holders in our study is inconsistent with the finding many earlier studies. On the basis of educational qualification, the survey reveals that while the highest percentage i.e.36 per cent of the respondents are graduates, 14.33 per cent falls under ‘post- graduate’. The distribution of sample investors among different occupations shows that the highest proportion (31 per cent) of the respondents are Business men and Self employed followed by Government servants (23.33 per cent). In the sample, the lowest percentage is of daily wage earners (3 per cent). This Survey conducted among the owners of life insurance policies exposes that, out of 234 respondents who have purchased policies from agents, only 37.18 per cent have a perception of ‘satisfactory’ regarding the agent’s service. The study reveals that only a small percentage of respondents, say 12 per cent made voluntary approach to purchase the life insurance policies. The clustering of decision process around a single product offered by the agent excludes choice based decision mechanism.

The study employed ANOVA and Z-test for analysing the economic and demographic determinants of investment pattern amongst the respondents of the Survey. The various independent variables that the study has taken here are Occupation, Income, Educational qualification, Age, Gender and Region. The analysis landed in the
inference that except region (rural / urban), all other variables are determinants of investment pattern. By registering inconsistency with many other earlier studies (with different sample areas) this Survey did not find a significant difference in the investment pattern of respondents residing in rural and urban areas.

Chi-square tests have also been employed, to check the awareness level of respondents based on their educational qualifications and occupational structure. The stages of decision making have been identified namely; need recognition, search for information, pre-purchase evaluation of alternatives, purchase, consumption, post-consumption evaluation and divestment. The ability of a consumer to go through this process significantly based on the awareness level related to the products and market structure. Basing these, the research has taken five relevant and feasible attributes to compare the awareness level. The results of the study are sufficient to prove that difference in education is more effective than the difference in occupation of life insurance consumers to determine the level of market and product awareness. And also finds that, generally very low level of awareness is functioning with the purchase process of life insurance policies and which facilitates mis-selling.

And finally the study explores the distinctions in the influential factors upon the purchase decision of rural and urban customers with Factor analysis with Principal Component analysis (PCA). The finding of our study in its abstract upholds the dominance of non-product attributes such as familiarity with the agent, their behaviour etc in determining the decision behaviour of rural investors, while non-product attributes are less prominent in the purchase behaviour of urban policy holders.
7.2 Major Findings of the Study

- The formation of Insurance Regulatory and Development Authority (IRDA) and the subsequent reforms towards privatisation have transformed Indian life insurance market as one of the fastest growing markets in the World. But life insurance penetration and density are yet to scale high.

- This study shows that an exponential growth in life insurance industry after it is thrown open to private players in 2000 and identifies that the growth is fuelled largely by the private sector. The CAGRs (at constant 1999-2000 price) of ‘Total Premium’ and ‘New Business Premium’ of private sector(135per cent and 118.77 per cent respectively) were much greater than that of LIC (14.8 per cent and 17.48 per cent). But the annual growth rates of private business showed a negative trend. The Global recession of 2008 made severe blow to the volume of life insurance business, but in the recovery process, public sector reveals their strength.

- The entry of private players in life insurance has resulted in an average 30 per cent drop in the market share for LIC. ICICI Prudential has succeeded in maintaining the private market leadership with their highest market of total premium. But the consistent growth in the private new business market share of SBI Life insurance Company predicts their dominance in the years ahead.

- Since the post-privatisation period, the ambit of distribution horizon expanded with the introduction of institutional agencies. The market share of individual tied agents is gradually receding, while that of alternate channels such as institutional agents and direct business is showing upward buoyancy. In nominal terms, while premium per agent has declined by 20 per cent, a reduction of 28.75 per cent in policy per agent is recorded in the industry during the post-reform decade. There is clear cut upper hand in the productivity of agents tied to public sector over that of private
sector. The alarmingly high turn over ratios of individual tied agents recorded under the private domain has multidimensional impacts. The comparative advantage in the productivity of alternate channels tempted the private sector to express a bias towards them. But the inadequate presence of institutional distribution agencies other than banks in the rural sector may raise challenges.

- High new business strain and expanding distribution networks have resulted in huge expenditure ratios which paved the way for huge accounting losses across the private sector. Regarding the 16 private companies, the ratios were over 20 per cent. To an average, almost ten times difference can be seen between LIC and Private while the industry figure is approximately double to that of LIC related to operating expenditure per policy. The urge for cost efficiency as an important prerequisite for a healthy profit zone is well admitted. During the decade, LIC recorded an enviable net profit growth from Rs 316.65 crore in 2000-01 to Rs 1060.72 crore in 2009-10, while the private sector had to wed up a net loss of Rs 43.69 crore to Rs 2032.63 crore in respective years. Private sector together fetched a loss(Rs 17867.2 crore), which is almost 2.5 times of profit earned by LIC (Rs7163.49 crore) during the decade . From the eve to the end of the post-privatisation decade, the net profit generated by the public sector has multiplied by more than three times. The study finds that high expenditure ratio, inconsistent and unpredictable investment return ratio, the excessive skewness towards linked products and high lapse ratios are making impediments in the way of private insurers to enter into profit zone.

- There is a remarkable disproportion existing between the complaint share and market share of life insurers. Under the private domain, the death claim repudiation ratio scored during the decade ranges from 3.27 per cent of ICICI Prudential in 2009-2010 to 27.78 per cent of Tata AIG recorded in 2008-09. The ratio of repudiations to total reported claims were being kept below 1.5 per cent by LIC in
all the years of post-reform decade. The high claim repudiation ratio indicates the lax in underwriting standards of private insurers.

- The statistical analysis on realised investment behaviour under life fund category of life insurers in India finds that all categories of life insurers in India have performed their investment operations inconsistently, but with different degrees. The Box plot analysis employed in this study finds that the public and private insurer’s Life fund Investment portfolio expressed considerable deviations from the regulatory target. Over emphasis on Central Government Securities at the cost of State Government and other approved securities and sub target investment by LIC in Infrastructure and Social Sector are the notable features of the ‘life fund investment behaviour’ of Indian life insurers during the post-liberalisation decade.

- Structural change in Indian economy and emergence of service sector as the engine of growth might have directly and indirectly impacted the financial services and contractual savings as well as growth in the financial sector benefiting life insurance business. The overall economic growth aroused out of the high GDP and domestic saving expands the scope and market potential for life insurance business as signalled by the high correlation coefficients. Through the Regression analysis, Personal Disposable Income (PDI) as a measure of purchasing power and improvement in general economic well-being is found as an effective component for the growth of life insurance business. ‘Size of population’ reveals its strong impact upon the determination of life insurance business in India. So the expected high relative growth rates in GDP, household financial saving, working population and middle income group offer immense potentiality for the life insurance growth in India.

- This study finds inelastic nature of interest rates and high positive elasticity of stock market index in the determination of life insurance business in the post-reform
A high correlation between the growths of the stock market index and life insurance business is an onslaught upon the consistency of life insurance growth in India, as evident from the reflections of the World Economic Meltdown of 2008 and the subsequent stock market crash of Indian life insurance business. In the light of the revealed inefficiency to insulate the economy from global shocks, to keep a consistent growth trajectory in life insurance business, a deviation from the ‘Unit Linked Insurance Policy (ULIP) driven growth strategy’ is essential.

- As per the results of Box plot analysis employed in this study, there is very high disparity existing in the distribution of life insurance agencies and offices amongst Indian States. Taking into account the regional performance, Southern and North Western States are generally highly performing in life insurance spreading while lowest performance is registered with the North Eastern region. This study identifies that inter-state disparity is not an outcome of the disparity in the concentration of private business, exclusively. The Cross-section data analysis finds that the impact of per capita income and literacy rates are more significant than ‘urban to total population ratio’ in the determination of life insurance spreading across different States in India.

- This study realises that the strengthening of the structural underpinnings of life insurance business is essential before the implementation of the expected regulatory movements such as raise of FDI cap, revision in Solvency norms and IPO.

- Life insurance investment pattern differs according to the various economic and demographic variables as the ANOVA results of this study speak. This study did not find a significant difference in the investment pattern of respondents residing in rural and urban areas. But regional differences play a determinant role in setting the influential factors of purchase decision, as per the Factor Analysis done in this study. Non-product attributes such as familiarity with the agent, their behaviour etc,
are highly determining in the purchase decision of rural investors, where product attributes are prominent regarding the urban policyholders. The product selection is limited by the number of products offered by the sales units rather than the total supply of products. The clustering of decision process around a single product offered by the agent excludes choice based decision mechanism. The study reveals that only a small percentage of respondents, i.e., 12 per cent made voluntary approach to purchase the life insurance policies. Only 37.18 per cent of respondents are satisfied with the agent’s service. The Chi-squares tests prove that difference in education is more effective than the difference in occupation of life insurance consumers to determine the level of ‘market and product awareness.’ However, the terminologies and contract wordings in the policy forms and documents are found to be complex and difficult even to highly educated customers. Generally very low level of awareness is functioning with the purchase process of life insurance which paints the market as highly imperfect.

7.3 Policy Implications of the Study

- The delay in the attainment of ‘breaking-even’ faced by the private sector along with the proved incapability to insulate from global economic shocks not only reduce the number of new entries into the life insurance market in India but also enhance the possibility of mergers and acquisitions. Heavy market concentration of private sector business amongst a few number of firms and the rising competition strengthens this possibility. The regulator should be acted as a watchdog in these awaited dynamics with strong regulatory intervention by keeping a balance between sustainability of the industry and its liability.

- The low investment return ratios recorded under the portfolio investment of life insurance sector and the observed deviations of investment behaviour from the regulatory vision suggest revisions in investment regulations. The present
regulation based on mere quantitative restrictions should be restructured by incorporating qualitative components and flexibility in the adaptation of changing economic conditions.

- The unethical aggressive selling behaviour with linked products in a developing country like India is an alarming threat to the long run prospects of the industry. This study recommends tightening of regulatory interventions to clampdown on mis-selling of ULIPs.

- Strengthening finances and governance of the state governments for enhancing per capita income and literacy levels are prerequisites for promoting the deepening of financial intermediaries like life insurance. Along with the present ‘Rural and Social’ obligatory targets, IRDA needs to consider ‘Regional’ targets also.

- Any regulations related to a change in the source of capital and revisions of solvency conditions should be built upon strengthened pillars of corporate governance.

- The comparative advantage in the productivity of alternate channels and the realised urgency to attain cost efficiency, tempting the private sector to wed up a non-individual agency model of distribution. But the effectiveness of individual agents in the rural sector as identified by this study suggests regulatory intervention to confirm their presence in rural regions, but without mis-selling behaviour. The inadequate presence of institutional agencies other than banks in the rural sector strengthens this plea in the light of the need for financial inclusion. By Regulation, tied agents and banks are permitted to make tie up with a single insurer only. This has to be reconsidered to expand the freedom to select products from multi-companies.
The maturity of a life insurance market will become true only when the present ‘supply driven’ market give way to ‘demand driven’. The process through which awareness could be improved would require sustained effort from the authorities. Since the terminologies and contract wordings in the life insurance policy forms and documents are identified as complex and difficult even to the highly educated, simplification of policy forms and the use of vernacular languages are to be considered along with the inclusion of life insurance basics in curriculum. It is felt that well informed customers with right perception can create economic ripples. The factors that may constrain the awareness campaign include social dynamics within states with differences in the levels of literacy, income and ability to comprehend social security and risk. This realisation calls for designing and launching diversified awareness building interventions that effectively help households with different socio-economic characteristics to fully comprehend the benefits of life insurance.

7.4 Contribution of the Study

There have been a galaxy of research clustered around LIC during its monolithic period, but no comprehensive and academically oriented work is coined based on the post-liberalisation dynamics of Indian life insurance industry in a comprehensive way with private-public comparison. The scope and dynamics of growth of Indian life insurance industry have been analysed in this study in the light of changes in macroeconomic environment, demographic transition, changing market structure, emerging convergence in financial markets etc. Thus the study provides a powerful insight into emerging trends in the Indian life insurance industry as a whole. In the eve of the second decade of insurance liberalisation, amidst the expected regulatory changes such as IPO listing of life insurance companies, raising of FDI cap, revision of Solvency criterion etc, such a study is vital and indicative not only to the industry personnel and
the regulator, but to the present and future consumers also. The life insurance companies who have completed ten years of operations are allowed to enter into the capital market with the public offer of shares. In this occasion of the warming up of the selected companies for IPO, such a study may be a guide post for all those who wish to become the part of the life insurance industry.

7.5 Scope for Further Research

This present study exposes the vast research potentiality offered by the life insurance industry in India, especially in the post reform period. One can get an insight into the transition of the Indian life insurance industry and evolving market structure from pre-nationalisation to post-reform (insurance) period. The attempt done in this study to identify the link between the economy and life insurance business and to investigate into the disparity of geographical spreading of business etc open new vistas for further researches with more economic and demographic variables. This study may tempts others to undertake research by adding more elements of comparison between private and public life insurers. Review of rural and social sector obligations of life insurers and the prospects and potentiality of micro insurance etc are vital areas, but the present study could not include those aspects. The findings of the Survey based analysis on different aspects of life insurance consumer’s decision process presented in this study offers a platform to realise interdisciplinary research potentiality of the topic at the national level.

7.6 Conclusion

The formation of IRDA and the subsequent reforms towards privatisation have transformed Indian life insurance market as one of the fastest growing markets in the World. But there is an urgency to focus on key structural gaps and dynamics that have
persisted in the industry during the post-reform decade of rapid growth. Inefficiency in underwriting standards, a skewed product focus, low customer orientation, low productivity and cost inefficiencies have increased, as scalability of business remained the most important consideration for private players in the decade. In spite of these weaknesses embedded in the structural underpinnings, the future prospects of the industry due to favourable macro economic and demographic elements remain optimistic. Enabling regulations would be the perfect catalyst for sustaining a healthy growth momentum over the next decades. But the challenge clearly rests with the life insurers to take the industry to further evolutionary phases. The industry and its management culture must change to prosper in the new paradigm. Life insurance needs to take its pride of place as a financial security mechanism both in the lives of the people and the economic well-being of the country.