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Assessment of Life Insurance Corporation in Indian Economy

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ABSTRACT:
Increased levels of wealth created by the individuals and brighter economic prospects for the future have substantially increased the demand for sound professional advice on investments, retirement, tax and estate planning. There is an ever increasing need felt by the investors to now all about various types of wealth creation products. Bank and finance executives are often called upon to advise their clients on the right choice of investments. Financial Planning and Financial Advising is the process of assessing a person's financial goals, taking into account his money savings and other assets to help one reach those goals. Financial planning also includes getting the most out of other financial resources, including insurance, equity and debt securities.
Key words: Financial planning, resources, securities

INTRODUCTION:

Life Insurance Corporation of India (LIC) was formed in September, 1956 by an Act of Parliament, viz., Life Insurance Corporation Act, 1956, with capital contribution from the Government of India. The then Finance Minister, Shri C.O. Oeshmukh, while piloting the bill, outlined the objectives of LIC thus: to conduct the business with the utmost economy, in a spirit of trusteeship; to charge premium no higher than warranted by strict actuarial considerations; to invest the funds for obtaining maximum yield for the policy holders consistent with safety of the capital; to render prompt and efficient service to policy holders, thereby making Insurance widely popular.

Since nationalization, LIC has built up a vast network of 2,048 branches, 100 divisions and 7 zonal offices spread over the country. The Life Insurance Corporation of India also transacts business abroad and has offices in Fiji, Mauritius and United Kingdom. Besides the branch operations, the Corporation ha's established overseas subsidiaries jointly with reputed local partners in Bahrain, Nepal and Sri Lanka. The life insurance corporation of India has been a nation builder since its inception. The main objective of its nationalization is to rlJ0bilize the funds invested by the people in life insurance for the benefits of the community at large. The LIC has invested major parts of its funds primarily in the socially oriented sector. About 82% of its total investment was in the public sector, 1% in Co-operative sector and 17% is in private sector in the previous years .The investment of its funds is governed by section 27A of the insurance act 1938, subsequent guide lines/ instructions issued by Indian Government from time to time, and the IRDA by, way of regulations.

Interdependence of LIC and GIC

A number of factors that might be assumed to be strong drivers of insurance market growth appear much less significant in practice, including demographic factors, such as the share of the population that is approaching or at retirement relative to the share that is young, and the educational level of the population. Notably, social provision of insurance, such as social security and government health insurance, appears to grow in tandem with the provision of private insurance perhaps because both are associated with increasing incomes – rather than acting as substitutes as some have conjectured. In addition, even though urbanization might be expected to lead to growth in insurance coverage due to the associated separation from traditional informal insurance practices prevalent in rural settings, urbanization does not appear to be a significant driver.

Variation in Insurance Coverage. Although the key drivers noted above are relatively robust in explaining insurance market coverage, nonetheless there is substantial variation in insurance coverage among economies that cannot be fully explained by these factors. This suggests some idiosyncratic factors may be at work. Observers have noted an S-curve relationship between per capita income and insurance penetration: insurance penetration is moderately positively correlated with per capita income within the group of low income countries and the same is true for the highest income countries. However, within the group of middle income countries, insurance penetration is strongly positively correlated with per capita income. This S-curve is somewhat misleading however, since it compares countries at different levels of per capita income, but does not predict how insurance penetration will rise as an individual country becomes wealthier over time. Indeed, even after controlling for income, there is substantial heterogeneity in insurance coverage between regions (with Latin America and the Middle East lagging behind) and even among different countries within regions (a handful of countries in Latin America have much deeper insurance markets than the remainder). Analysis of the heterogeneity even within the group of relatively wealthy OECD member countries leads some analysts to conclude that a full understanding of the relationship between insurance and growth requires some analysis of cultural and institutional characteristics within individual countries.

At minimum, the high degree of heterogeneity might suggest that attitudes towards insurance and risk must be taken into account in the development of country and regional insurance markets. Related, it suggests an important role for industry wide initiatives on consumer education and self-regulation in addition to the development of trustworthy regulatory and supervisory frameworks as the globalization of insurance markets proceeds.

Micro-Insurance The contribution of insurance to an economy's growth and efficiency is not the only entry point into its role in development. The contribution of insurance to poverty alleviation and the welfare of the poor is also potentially of considerable importance, although the quantitative evidence on this point is not on very firm grounding.

Nonetheless, case studies and other qualitative evidence make a persuasive case that the potential social value of so-called micro-insurance provision to poor households and small-scale entrepreneurs warrants a great deal more experimentation with business models and products to develop scaleable approaches that combine commercial and philanthropic elements.

Natural Disasters, Weather, and Crop Insurance

There should be enormous potential for natural disaster and weather insurance to improve the performance of lower income economies, which tend to be more vulnerable to high volatility in incomes due to commodity price fluctuations and natural disasters due to poor building codes and infrastructure. Current investments in new products and innovations in weather and natural disaster insurance should be followed closely, as it is anticipated that climate change will exacerbate the incidence of weather patterns and natural disasters in many poor areas. In recent years, the World Bank and other donors have been involved in experiments in countries such as Turkey and Mexico that provide earthquake risk insurance financed through a combination of reinsurance and the capital markets. In areas of Asia and Africa, there is growing interest in weather derivatives to insure against weather-associated agricultural losses. These are designed to sidestep the traditional incentive (moral hazard) problems associated with crop insurance by using independent measurements of weather outcomes such as rainfall rather than crop yields.

Health Insurance

As with the wealthier economies, the development of health insurance markets in developing economies depends on the composition of health delivery providers – whether private or public – and the government's involvement in health insurance provision. However, there is a strong tendency in poorer economies for households to bear responsibility for paying a much higher proportion of overall health costs out of pocket than in richer economies, which leads to under investment in health services (particularly on the preventive side) and vulnerability to health related consumption shocks. Thus, a strong case can be made for improving health outcomes in poor countries through a varied combination of public and private insurance provision depending on the institutional setting. Indeed, countries such as Mexico and Colombia have undertaken interesting reforms in this area in recent years, and this is likely to be an area of strong growth.

Small-Scale Entrepreneurs

The economic contribution of small enterprises to middle- and high-income economies is well-known. However, in many poor economies, start-ups and small-scale enterprise fall short of their potential due to a variety of barriers, including access to capital. As attention to these barriers grows, it is critical to put insurance high on the list. While the risk appetite of large corporations can be debated, small scale entrepreneurs whose household wealth is tied up in their business enterprises are undoubtedly preoccupied with managing risk. In the absence of risk management tools provided by formal insurance, there will be a tendency to under invest in higher risk, higher return activities, thus diminishing the potential contribution of the critical small and medium sized enterprise sector to employment, investment, and growth overall. In sum, extending accessible insurance products to poor households and small scale entrepreneurs should be a core part of the agenda of democratizing access to financial assets. When successful programs are taken to scale, it will not only add measurably to social welfare but also hold the promise of generating a more productive and higher growth mix of activities and investments – with a payoff perhaps greater than micro-credit.

Globalization of Insurance markets

Although the evidence suggests that insurance market deepening should be a priority in the financial sector strategies of developing countries, awareness of the role of insurance lags behind that of banking and capital markets. For these reasons, it is important to raise the visibility of this sector and to clarify what unique regulatory provisions might be needed to enable insurance market development alongside other facets of financial deepening. For many countries, a good starting point would be to include analysis and recommendations specifically for insurance in financial sector assessments.

Institutional Foundations for Insurance and Market development. The development of robust insurance markets generally requires many of the same foundations as for banking and financial market deepening: reasonable macroeconomic and political stability, clear property rights, enforceability of contracts, and safeguards against corruption. However, these are necessary but not sufficient conditions. Insurance market deepening also depends on the scale and growth of related markets, including sales of cars and other consumer durables, residential and commercial mortgage markets, business, establishments, disposable income, and commercial and trade transactions, to name a few. Growth in these related markets is critical in order for the nascent insurance industry to reach scale in developing shared infrastructure, underwriting capacity, statistical databases for actuarial purposes, and the associated skills.

Insurance for Different Stages of Economic Development

Although there is broad agreement on the need for adequate regulatory and supervisory frameworks, there is some debate on the content of these frameworks, and in particular the extent to which developing countries can or should harmonize their standards to global best practice or seek some intermediate Global best practices relying on disciplined transparency and corporate governance are still largely lacking in many developing countries. For some regions within Africa and Latin America, a strong case can be made for the development of regional standards that are common across groups of neighboring countries or Free Trade Agreement (FTA) partners. Regional harmonization offers many benefits, and it can be a step toward global standards.

IMPORTANT ASPECTS OF INSURANCE BUSINESS

Actuary

An ACTUARY is a person who has passed specialized examinations conducted by the Actuarial Society of India or the Institute of Actuaries, London. Actuaries are technical experts who have received specialist training in the mathematics of insurance. Their job is to ensure that the insurance products provided by the company are mathematically sound. They undertake various activities lie calculation of mortality rates, estimating expenses to be incurred by the insurance company in administrating various policies, and determining the rate of return that will be earned by the company on its investments. Based on the above, they decide on the premiums to be charged on various policies. As is obvious from the above, a good actuary has to be a good economist, a good statistician as well as a good security analyst. Every insurance company requires good actuaries to continuously study its operations and advise the management on the appropriateness of their policies.

Underwriting

An UNDERWRITER scrutinizes, analyzes and takes the decisions on the proposals received for insurance. While analyzing the risks arising from the insurance applications, the underwriters ensure that the company issues the maximum possible policies while keeping the risk of loss within acceptable limits. Any applications tat pose reasonable risks are accepted and those posing lower or higher than average risks are accepted at lower or higher rates of premium than normal. Any applications posing unreasonable risks are declined. The job of accepting or declining the proposals of insurance received by a company and deciding on the premium at which to accept the proposals is done by the underwriting department.

Policy Owner Services

The employees in this area are the ones who issue the actual policy documents. They also ensure customer satisfaction by attending to various requirements arising during the duration of a contract lie nominations, assignments, alterations, etc. These employees are basically responsible for maintenance of policy records, processing customer requests and informing policy-owners about any material changes that affect their policies.

Marketing

The marketing department studies consumer behavior needs and wants. On the basis of these studies, they give suggestions for new products which can satisfy those needs. The marketing executives also develop marketing plans, design promotional material for the different products, market the products to the customers and provide them services. The marketing department's role starts even before the inception of a product and carries on well after the product has been sold to the customer.

Banking Outlets

These days, there has been a trend of using outlets of banks for distribution of insurance products. The logic behind this is that, as both banks and insurance companies target the same segments of population, using the bank outlets for distribution of insurance products, it can help in saving overheads as well as infrastructure costs. The concept of banc assurance has gained importance in the banking sector which is good for the insurance sector.

LIBERALISATION AND PRIVATISATION

India’s economic development made it a most lucrative Insurance market in the world. Before the year 1999, there was monopoly state run LIC transacting life business and the General Insurance Corporation of India with its four Subsidiaries transacting the rest. In the wake of reform process and passing Insurance Regulatory and Development Authority (IRDA) Act through Indian parliament in 1999, Indian Insurance was opened for private companies.

Liberalization on the Insurance sectors has allowed the foreign players to enter the market with their Indian partners. Most of the foreign Insurers have joined within the local market. India offers immense possibilities to foreign Insurers since it is the world's most populous country having over a billion people. At present (2014) there are fourteen companies each in Life and General Insurance. The Funds earlier generated by the state owned insurers have been diversified with other new insurers. We should wait and see how the new players are going to boost up our economy.

MARKET SHARE (%) - AUGUST 2014					
LIFE INSURERS			**NON – LIFE INSURERS**		
1.	LIC	76.07	1.	New India	21.41
2.	ICICI Prudential	6.91	2.	National	17.11
3.	Bajaj Allianz	4.75	3.	United India	17.11
4.	HDFC Standard	2.98	4.	Oriental	17.02
5.	Brila Sunlife	1.72	5.	ICICI- Lombard	8.04
6.	Tata AIG	1.66	6.	Bajaj Allianz	6.15
7.	SBI Life	1.46	7.	IFFCO-Tokio	4.00
8.	Max New York	1.28	8.	Tata-AIG	2.89
9.	Aviva	1.08	9.	ECGC	2.50
10.	Kotak Mahindra Old Mutual	0.71	10.	Royal Sundaram	2.17
11.	ING Vysya	0.54	11.	Cholamandalam	1.22
12.	AMP Sanmar	0.46	12.	HDFC-Chubb	0.89
13.	Met Life	0.37	13.	Reliance General	0.75
14.	Sahara Life	0.03	14.	Agriculture Insurance Co.	--
PRIVATE TOTAL		**23.93**	**PRIVATE TOTAL**		**27.35**
PUBLIC TOTAL		**76.07**	**PUBLIC TOTAL**		**72.65**
GRAND TOTAL		**100.00**	**GRAND TOTAL**		**100.00**

In 2014, the private players in the life insurance business have increased their market share to 23.93 per cent. Among them ICICI prudential is ranked first in capturing the market followed by Bajaj Allianz and HDFC Standard. In the General Insurance sector the private players have captured 27.35 per cent. Among them ICICI-Lombard is ranked first, followed by Bajaj Allianz and IFFCO-Tokio.

The healthy competition in the sector enabled the State owned insurers of our mother country to reduce its market share to 76.07 per cent and 72.65 percent in life and non-life business respectively. Moreover, private insurers have planned to increase their market share in the next five years. The public insurers have to enrich its approach to withhold its share.

CONCLUSIONS:

The Insurance Industry has grown (premium as percentage of GDP) from 2.3 per cent in 2001 to 5.2 per cent in 2014. The report estimates the total insurance premium at approximately Rs $350-400 billion in 2020 with Life Insurance making 90% of the premiums. The profitability of the industry is negative as they have spent their energies in expanding their base in a rapidly growing market without concentrating on the margins leading to a cumulative loss by private insurers of around $3.5 billion. However the huge size of the insurance market which has been estimate at an astounding $350 billion in premium by 2020 is attracting companies in droves. Almost all major global insurance companies have a presence in India through JV (as government regulations only allow 26% holding).

The total investment portfolio of the insurers in India as at the end of March, 2014 was Rs. 7,21,215 crore. The total premium collected by the insurers both life and non-life in 2013-14 was Rs.4,25,225 crore. The major contribution came from life insurance. The insurance penetration i.e., premia as percentage of GDP was 4.25 per cent in 2012. While this ratio is steadily increasing, it is far below the world average of 8.06 per cent. This shows the vast potential that exists.

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