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Impact of Privatization on Indian Life Insurance Industry Post IRDA 2000

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Abstract

The performance of private players in first year was very low in the sense of market share it was only approx. 2%. Before the private players entered in the market LIC was the only dominant player in the public. LIC enjoyed over 98% of the market share in the early stage of liberalization and private players suffered losses in the first year of their operations But the private sector have seen 200% growth in the second year of liberalization. This has doubled their share from 3-4% in the first year itself. And LIC market share has drastically reduced in 2-3 years. First year premium collection was drastically increased in the second year of the operation. After that in each year private sector proved a boon for whole Indian life insurance industry. Privatization has positive impact on LIC as well as on whole Indian life insurance industry. It can be said on the basis of expanded life *insurance density i.e. now 55.7 USD in 2010-11 which was only 9.1USD 2001-02* and life insurance penetration, which is now 4.4% in 2010-11 from 2.15% in 2001

This paper focuses on the following issues:

- Impact of privatization on LIC
- Growth of New business premium analysis post IRDA 2000
- Growth of Total business analysis post IRDA 2000
- Total business Market share analysis post IRDA 2000

* Insurance density is measured as ratio of premium (in US Dollar) to total population

* Insurance penetration is measured as ratio of premium (in US Dollars) to GDP (in US Dollars).

Keywords: *LIC, Insurance Industry, Challenges by Private Companies.*

Introduction

It's very interesting the cake is being divided from one to several, but still nobody is sacrificing. The crux behind the fact is, the size of the cake is enhancing day by day. It means the insurance awareness is spreading all over the India. All the players are doing at their best to grasp the existing as well as new markets. They are offering the customized products and adopting Aggressive marketing strategies by exploring new products in new markets along with traditional riders and several other additional riders in today's risky environment to attract the existing and prospective customers. The enhancing size of the cake is entertained by each Life insurer. Privatization has positive impact on LIC as well as on whole Indian life insurance industry. It can be said on the basis of expanded life *insurance density i.e. now 55.7 USD in 2010-11 which was only 9.1USD 2001-02* and life insurance penetration, which is now 4.4% in 2010-11 from 2.15% in 2001

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Impact on LIC

Here we will consider the new business premium income to show the impact of privatization and globalization in Indian life insurance industry. It is because of private insurers as private insurers has no renewal premium in earlier years and LIC has a great extent of that type of premium. It will give the equal level to private and public insurers.

Almost all the new strategies adopted by private insurers and their foreign partners are adopted by the LIC. That's why after sharing its business it is still growing its profits. Premiums collections on new business are increasing day by day. One statement for the LIC in this context is very important that LIC is benefited with privatization. Impact of privatization on LIC is given as under:

- **LIC got opportunities through challenges by private players**

It means LIC took all the change as opportunities and discounted its image by adopting the changes and strategy. One more statement for LIC in this context:

- **LIC benefited with the efforts initiated by the private players**

It means private players made LIC to discount its image as a government owned unit, awareness which actually created by the private players but the private are not much established and by using the private sector's strategies LIC also reaped the benefits.

Performance of Life Insurance Industry 2000 Onwards (New Business)

❖ **Growth of New Business Premium Analysis of LIC and Private insurers**

Table: 1

Year	Premium Income (in crores)	Annual Growth (in %)	Premium Income (in crores)	Annual Growth (in %)
2000-01	9701	----	6.45	____
2001-02	19589	101.93%	269	4061.7 %
2002-03	15977	-18.44%	966	251.65 %
2003-04	17348	8.56%	2441	152.74 %
2004-05	20653	19.05%	5565	127.99 %
2005-06	28516	38.07%	10270	84.55 %
2006-07	56224	97.17%	19394	88.84 %
2007-08	59997	6.71%	33716	73.56 %
2008-09	53179	-11.36%	33827	0.33 %
2009-10	71521	34.49%	38372	12.36%
2010-11	87012	21.66%	39368	2.60%

Source: IRDA report 2010-11

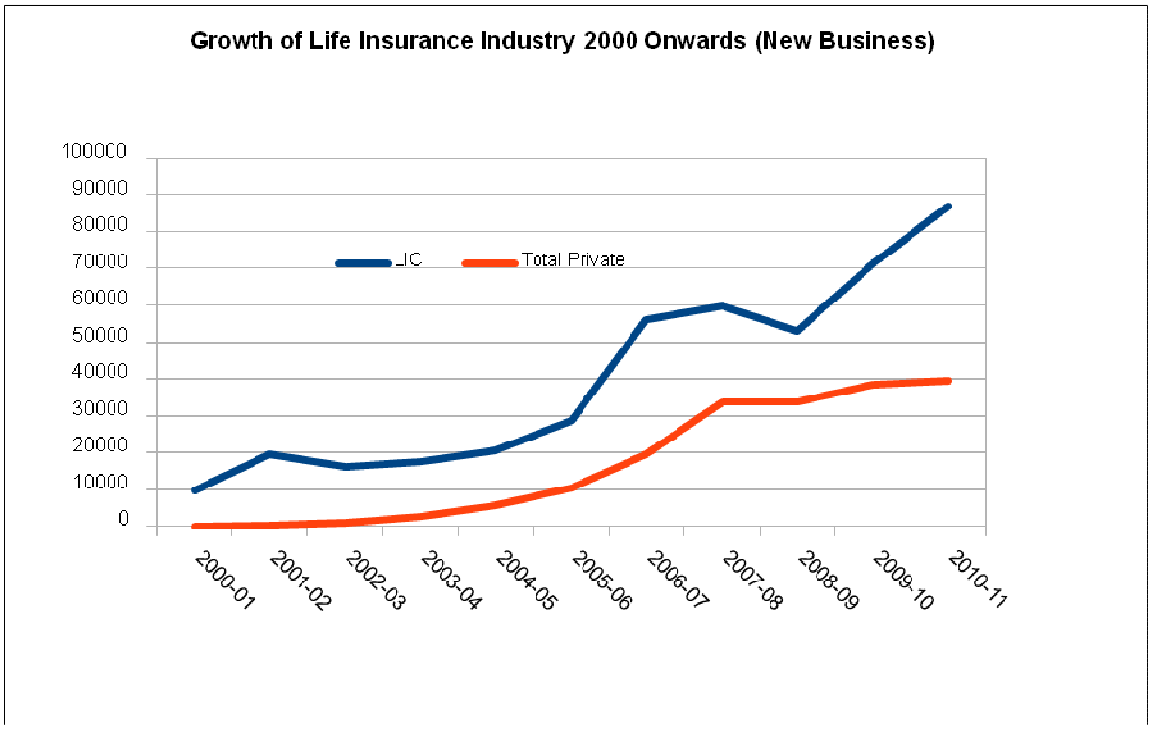

Figure: 1

Source: IRDA Annual Report 2010-11

Analysis of new business

It is clear from the table and the graph that first year new business premium is growing in each year, except year 2002-03 in this year LIC reduced his premium and private sector has achieved a very big share in the market. In the year 2001-02 and in 2006-07 annual growth was almost 100%. In these two years industry's cake become double. And in remaining years it is quite remarkable. Over the period of 9 years the industry new premium growth is 865% which is quite large. In the year 2009 due to global slowdown there is slight reduction in the business. In the year 2010 and in 2011The size of the cake is grown which is entertaining by each sector.

- **Growth Of Total Business Analysis**

Table: 2

TOTAL LIFE INSURANCE PREMIUM (Rs. In Crores)										
INSURER	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
LIC	49821.91	54628.49	63533.43	75127.29	90792.22	127822.84	149789.99	157288.04	186077.31	*203473.40*
Private Total	272.55	1119.06	3120.33	7727.51	15083.54	28253.00	51561.42	64503.22	79369.94	88131.60

Total (LIC + Private)	50094.46	55747.55	66653.75	82854.80	105875.76	156075.84	201351.41	221791.26	265447.25	291604.99

Source: IRDA report 2010-11

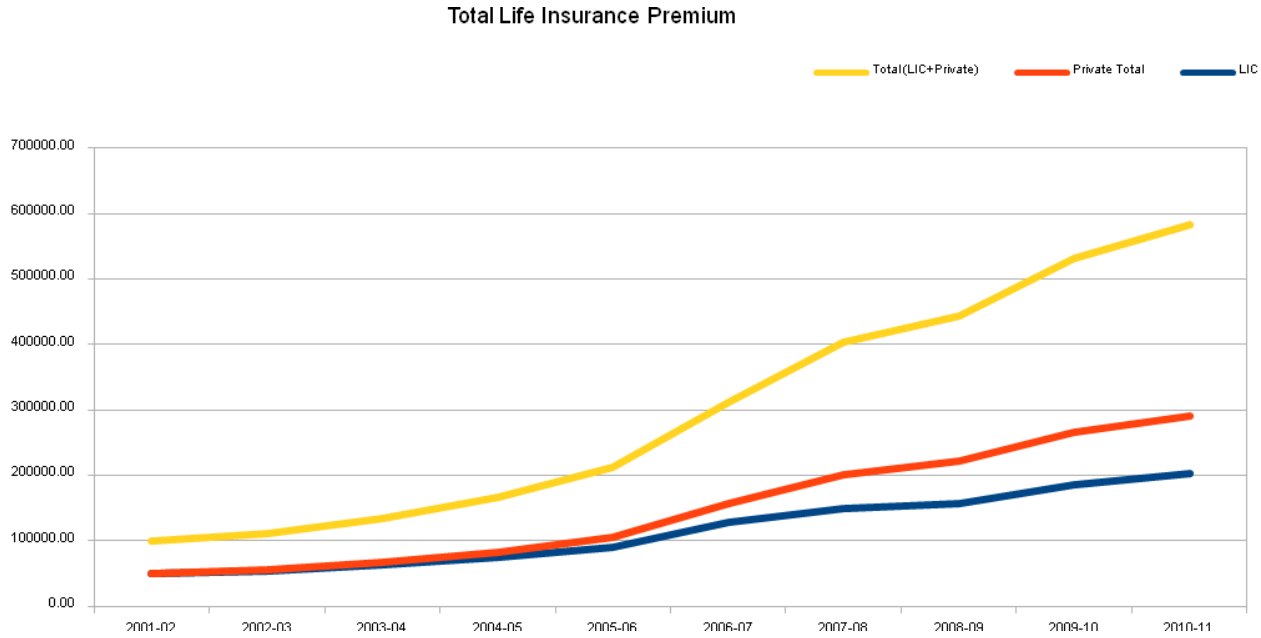

Figure: 2

Analysis of total business

Life insurance industry of India has seen growth in each after the privatization of the industry. Total premium of the whole industry is consistently increasing. Chart depicts the growth of the industry which is quite remarkable.

- **Total Business Market share analysis**

Table: 3

TOTAL LIFE INSURANCE PREMIUM (Market Share) (in %age)										
INSURER	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
LIC	**99.46**	**97.99**	**95.32**	**90.67**	**85.75**	**81.9**	**74.39**	**70.92**	**70.1**	**69.78**
Private Total	**0.54**	**2.01**	**4.68**	**9.33**	**14.25**	**18.1**	**25.61**	**29.08**	**29.9**	**30.22**

Source: IRDA report 2010-11

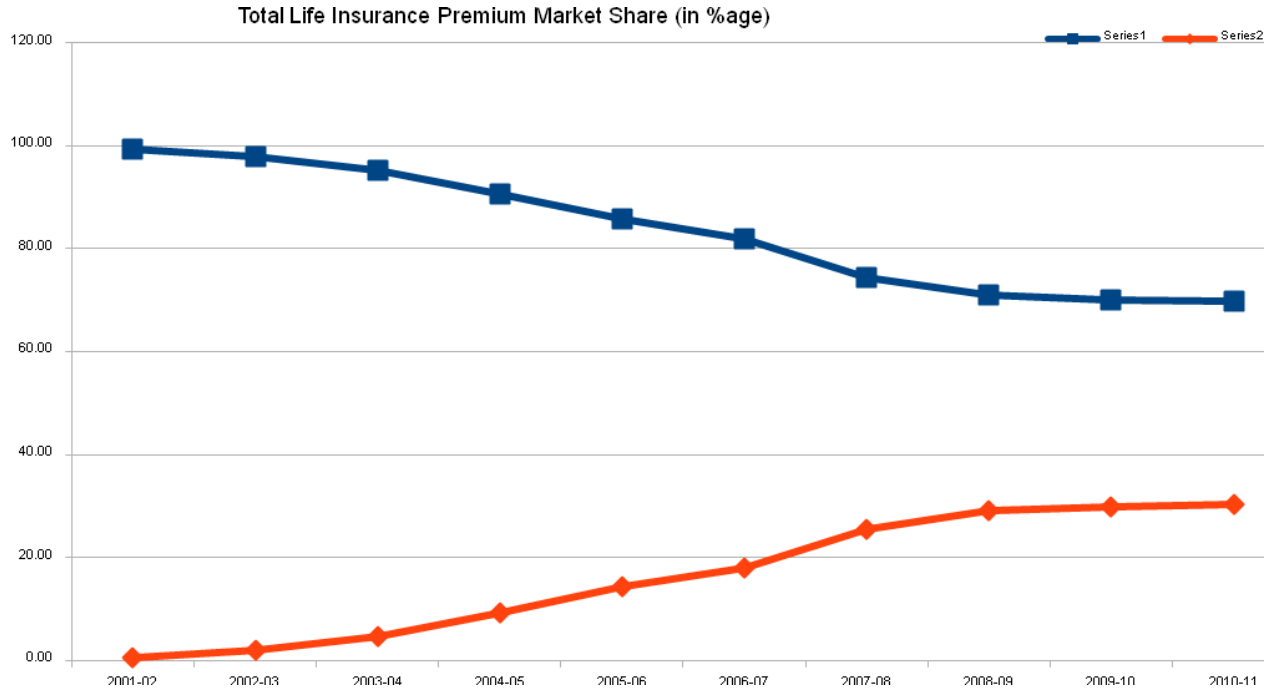

Figure: 3

Analysis of market share in total business

LIC has a long history so its premium includes a huge part of the policy sold before privatisation. So study compares the new business achievements. But private insurers are doing well here. Their yearly growth is excellent in the life insurance industry. They have 33.22% market share in total business. They achieved more than their expectation**.**

Conclusions:

The above analysis shows that Indian life insurance industry is grooming at large. LIC has no negative impact of privatization. Efforts initiated by the Private sector are also adopted by the LIC and being a public insurer LIC got benefits and its business is growing like anything. Challenges of private sector has proved boon to the LIC and Indian life insurance industry. Whole Indian insurance industry is reaping the benefits of innovative strategies in insurance service sector.

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