P: ISSN NO.: 2321-290X
E: ISSN NO.: 2349-980X
RNI : UPBIL/2013/55327
Shrinkhla Ek Shodhparak Vaicharik Patrika
Vol-III * Issue-IX*May-2016

Dynamics in Indian Life Insurance Sector –Contemporary Issues and Challenges

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Abstract

Indian Life insurance sector is facing volatile growth trends after previewing golden era from the period 2001 till 2010. Government and sectorial players are trying to revitalize the industry while comprehending confronted challenges with regulatory, financial marketing and technological improvements. Although, the industry is laced with multi-faceted opportunities lying in economic, social and demographic regimes of the economy yet it has a tough time ahead.The paper helps in providing an insight into faced challenges, ongoing trends and contemporary issues concerning life insurance in order to understand its base, case and thus crafting a fortune of life insurance industry.

Keywords: Life Insurance, Indian Conditions, Trends, Contemporary Issues, Challenges.

Introduction

Human existence is capricious and completely dominated by apprehensions, uncertainties and risks which are grossly unpredictable. Life Insurance is considered as a firm fulcrum for providing financial defense against life's odds. It is commonly said: "When praying does no good, insurance lend a hand. Yet people are by nature hostile to life insurance. This reluctance can be endorsed to the peculiar characteristics of the insurance, for instance, intangibility of the product, benefits appearing to emanate to fruition at too distant a future and moreover related to inauspicious event of death. But still, while prayer may provide immense hope, insurance provides a valuable and constructive promise having a commitment of accomplishment.

The traditional Indian culture and societal patterns has been transformed vigorously due to rapid industrialization and economic progress. It has extensively substituted joint family system to nuclear families and resultantly financial cushion to combat the disastrous event of bread winner's death has evaporated. The domain of life insurance resorts to an intellectual solution of this modernized urban phenomenon by building up a corpus for future economic uncertainty and mental stress. It not only promotes individual happiness, prosperity and stability but also act as a platform for economic development of a country.

Presently, life insurance industry is passing through a difficult phase in our country. Even though, there is enormous scope and potential for the industry to grow, with around 80% population lacking life insurance cover (consumerforumindia, 2011). Yet, the industry is undersized in terms of life insurance penetration and density levels as compared to advanced nations. Furthermore, the industry is confronting a rapidly evolving and potentially disruptive set of market dynamics with a whooping decline both in life insurance penetration and density after its golden era from FY 2001 till 2010. India now stands much below the global average of 6.5 per cent of GDP in insurance spread at 3.96 percent. Despite the growth tendencies in economy, in terms of GDP and per capita income the life insurance industry finds it difficult to exploit the opportunity with its choppy growth trends (annual report of IRDA 2013-14). So, the challenge of troubled Indian life insurance market calls for a closer analysis of past trends to have a diagnostic view and insight into various contemporary issues posing opportunities and challenges in order to strategically navigate through this difficult time of the industry.

Objective of the Study

Life insurance sector need to refine and redesign its current strategies in order to conquer confronted challenges, to combat declining trends and to pursue widespread opportunities. So, this study undertakes an analysis of past trends alongside an investigation of various

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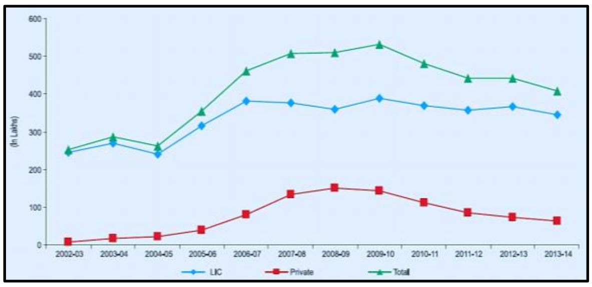
contemporary issues concerning the sector in order to revitalize the industry from ongoing depression.

The study is primarily based on secondary data collected mainly from the monthly business reports, annual reports and monthly journals of the IRDA from 2001 to 2014. The study design is of conclusive nature.

Tends in New Business of Life Insurance

Trends published by the Indian insurance regulator 'Insurance Regulatory and Development Authority of India' in its annual publication that, during the first phase of insurance sector liberalization, life insurance industry recorded a persistent upsurge in new policies issued till year 2010after that it continuously perished. Where in private sector performed more poorly than state owned LIC.

Number of New Policies Issued



Source: IRDA Handbook on Indian insurance statistics 2013-14

Causes of Tumble in Life Insurance

1. India is not immune to global meltdown due to US financial havoc in year 2008 and European debt crisis in 2011 and so impacted Indian life insurance industry.
2. The ULIPs saga due to volatility in equity market shattered the investors' trust and confidence.
3. Low levels of insurance literacy among general masses and lack of financial planning.
4. Abnormal charges by the insurers even during slump slashed the demand.
5. IRDA's directives In September 2010, regarding capping charges and commissions on Unit Linked Products (ULIPs) lead to steep decline in its sale due to depletion in fund values of policy holders coupled with disinterest on part of agents.
6. Lack of professionally qualified and trained agents and therefore remain incompetent to convince customers to purchase life insurance products.

Life Insurance Industry: Biting the Bullet - Major Challenges Ahead:

To Regain the Confidence

The ULIPs saga has greatly shattered the confidence of investors in the industry. To regain the trust of people is a great challenge posing life insurance industry. Insurance Intermediaries has lost much of their credibility for the reason that a lot of ULIPs were sold on fabricated promises and later ULIPs failed to generate expected returns. Challenge is huger for the agents operating in semi-urban or rural areas.

Professional Incompetence of Agents

Indian life insurance agency force is professionally incompetent. They opt for this profession as part timers. They are not fully devoted in this profession on a regular basis and so owing to this reason their productivity levels are low combined with inability to fetch quality business and also to render proper services to the customers. Face lift of the skills, competencies and attitudes of such a huge agency network is a hefty challenge for the industry.

Low Persistency Ratios

Reasonably high persistency levels are considered crucial for survival of insurers. Persistency ratio is measured in terms of customer retention for longer periods in form of renewal premiums. Unfortunately, most of the life insurance companies operating in Indian insurance landscape are performing poorly on persistency ratio front. IRDA Annual Report 2011-12 discloses that most of the insurers are performing poorly on persistency levels beyond 37 months, whereas if 61 months persistency ratio is reckoned only four insurers withstand, indicating more than 40% policies issued in year 2006-07 have either lapsed or surrendered or resulted into claims.

Persistency Ratios (Based on Number of Policies) of Some Leading Life Insurers During 2011-112

Insures	Persistency Ratios				
	13 month	25month	37month	49 month	61 month
Aviva	58.00	47.00	25.00	24.00	19.00
Bajaj Allianz	54.57	85.76	19.03	51.85	43.50
Bharti AXA	58.20	51.60	46.80	52.20	39.60
Birla Sunlife	82.00	77.00	72.00	62.00	53.00
HDFCStandard	75.35	88.11	63.50	66.38	78.40
ICICI Prudential	77.00	86.70	31.80	50.60	65.30
ING Vysya	65.00	55.00	38.00	36.00	38.00
Kotak Mahindra	70.00	61.00	50.00	40.00	40.00
Max Life	75.00	62.00	42.00	39.00	31.00
Metlife	63.56	56.84	50.32	47.44	44.82
Reliance	55.90	78.10	29.10	70.30	76.70
Sahara	73.73	65.14	43.04	39.92	41.74
SBI Life	71.77	60.52	20.54	16.27	23.35
Shriram	51.40	82.30	39.10	80.30	84.70
Tata AIA	44.71	18.10	17.32	16.13	14.03
LIC	67.00	61.00	53.00	46.00	51.00

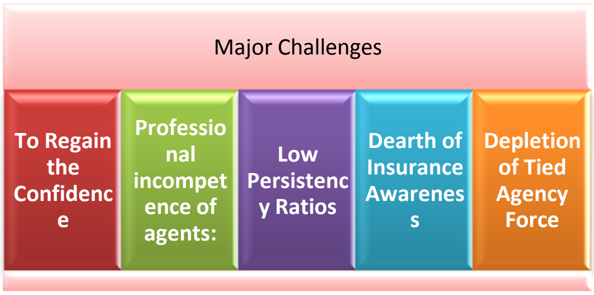
Source: IRDA Annual Report 2011-12

Depletion of Tied Agency Force

A serious challenge faced by the life insurers is dwindling size of tied agency force. Number of tied agents dropped from 26 lakh to 23 lakh during the term 2010 to 2013. IRDA has made mandatory qualifying examination for obtaining license for agent ship, which new recruits find hard to clear even after getting 50 hour compulsory training. The pass percentage is below even 50% because of higher difficulty level of new syllabus especially practical problem solving portion requires in depth study. Moreover, the youth with very high IQ do not prefer to opt for a career in insurance agency. Above all most new entrants find the occupation either too tough to handle or not adequately rewarding.

Dearth of Insurance Awareness

The major challenge faced by the insurance industry today is lack of insurance literacy. Even after passing of almost 6 decades of LIC formation, it failed to disperse the knowledge about its relevancy to the nook and corner of the country. Most people consider it just an investment option or a saving instrument. Moreover, agents rather than marketing need based products just push high commission generating products with lesser service obligations. So, lacking competency, professionalism and integrity of intermediaries is a big hurdle in generating and improving insurance awareness among masses.



Contemporary Endeavors of Indian Life Insurance Operational Transformations

To regain the credibility among investors insurers are transforming their functioning. Now, blends of linked and non-linked products are being offered along with long term options. This will not only provide throughout working life protection to the insured but also, will ensure consistency of business for the insurers with inflow of renewal premiums for a pretty long time.

Emphasis on Health and Pension Products

Exceeding 80% Indians are employed in the informal sector offering not any old age financial security or health coverage to the people. Presently, Insurers are rightly emphasizing health insurance and pension products perceiving a huge market potential in these two areas particularly when life expectancy in India is going to touch 80 years in next decade.

Alternate Marketing Strategies

In order to combat professional in competence and productivity levels of life insurance agents the industry is surrogating unconventional channels for marketing its products as short term arrangements. Insurers, in the wake of direct marketing and distribution tactics, now prefer to send their own employees and executives directly to the customers. This endeavor is yielding better productivity and is fetching larger premiums per policy in contrast to conventional tied agency system. In 2012-13, the average ticket size of a policy sold via direct marketing channel of LIC was 32,585 as against an average of 7,933 fetched by tied agency channel. Yet again, average productivity in terms of First Premium was 7.84 lac, per Direct Sales Executive (DSE) in 2012-13, as compared to 2.47 lac procured by tied agents. Private counterparts are also successfully exploiting this new channel.

Digital Distribution

Nowadays, a large volume of insurance business is transected online. The tech savvy new generation customers are extensively using online methods for purchasing insurance products. They also use social media for peer suggestions. EY's *2014 Asia-Pacific insurance outlook* notes, online insurance sales in India grew approximately 70% in 2013 over the previous year. It further predicts massive scope of online insurance market in India, with an upsurge from approximately INR2b in 2013 to INR80b by 2020.

Banc Assurance

Indian banking system has earned more acceptability and credibility among urban and rural masses. So, insurance industry is at the top gear with their banc assurance partners, for increasing insurance penetration in special segments. IRDA is heading for a liberal regulation in allowing banks to sell insurance products of multiple insurers. To penetrate deeper into life insurance market insurers including LIC are planning to open one man offices within the premises of its Banc assurance partners.

Corporate Social Responsibility

A heart warming trend in insurance industry is that like ordinary corporate sector the insurers are trying to discharge their Corporate Social Responsibility. Insurers, by contributing in societal developmental projects can earn more respect and loyalty among its customers.

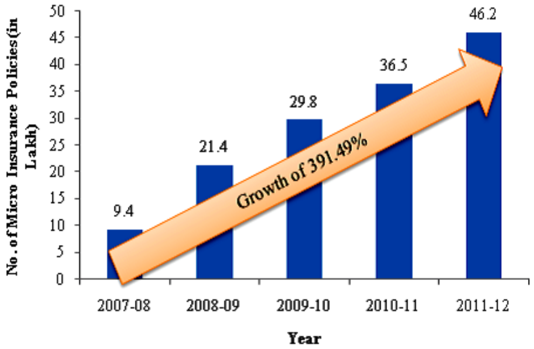
Strengthening Consumer Grievance Network

In order to ensure that policyholder grievances are addressed and redressed in an efficient and faster manner IRDA has set up the Insurance Grievance Call Center (IGCC). The call center is occupied in establishing IGCC with inbound, outbound and back office capabilities to provide a qualitative grievances redressal experience and to meet the long-term vision of IRDA. Call center is also setting up Nationwide Consumer Service help line espoused by back office activity to provide a single window system to policyholders to lodge their complaints with their respective insurers. The mechanism will restore and strengthen the confidence level of consumers further promoting life insurance demand.

Micro insurance

Concept of Micro insurance emerged to bring the poor and low income masses of India in insurance fold to materialize the goal of insurance inclusion. Under micro insurance a policy of value up to Rs.50, 000 is issued against specific peril for regular premium in proportion to the cost of risk involved. This concept is an Endeavor to bring equilibrium between adequate protection and affordability. IRDA is considering a proposal to re-define Micro insurance agency and products. An IRDA circular dated April 3, 2013 permitted District Co-operative Bank, Regional Rural Banks, and Individual owners of Kirana shops etc. to be appointed as Micro insurance agents to facilitate better penetration of life insurance business. During FY 2012-13 a total of 46.2 lakh micro insurance policies were issued which stood at only 9.4 lakh in 2007- 08, with a tremendous growth of 391.49%.

Growth in Micro insurance Policies



Source: IRDA Annual Report 2011-12

Conclusion

India is now the third-largest country in terms of purchasing power parity (PPP), and is anticipated to become one of the largest consumer markets by the end of this decade. Advantageous demographics in India outweigh the concerns associated. There are very few economies in the world like India with such a bright potential for life insurance demand. It relishes an increasing rate of urbanization, affluent and growing middleclass, and one of the world's largest and youngest workforces. At this juncture, India is a perfect and favored destination for investment in services, given its undervalued currency, huge high consumption population, vibrant stock market and stable democracy [Gill, R. (2014) CEO, Deutsche Bank India]. Despite the recent headwinds India has faced, its fundamental strengths remain solid and intact. The economy is slowly recapturing momentum, with both domestic and global conditions have starting to recover. Favorable demographics recent government reforms and improved marketing mix through technological revolution, bancassurance, microinsurance are expected to counter confronted challenges and Indian life insurance segment is geared up to bounce back for a major growth in the long run.

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