



# A Comparative Study of Public and Private Sector Life Insurance Companies in India: Post Liberalization Span

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## Abstract:

*Insurance is a financial risk management tool in which the insured transfers a risk of potential financial loss to the insurance company that mitigates it in exchange for money compensation known as premium. Insurance sector in India is one of the fastest growing sectors in the economy. The insurance sector in India has completed a full circle from an open competitive market to nationalization and back to a liberalized market once again. With the entry of private life insurance companies in the year 2000-01, the competition is becoming cutthroat. The objective of present study is to compare public and private sector life insurance companies in India in the post liberalization span.*

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**Keywords** *Life insurance, Liberalization, Total premium, Insurance penetration, Insurance density*

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## 1. Introduction

In India, insurance has a deep-rooted history. It is mentioned in Manusmriti, Dharmshastra and Arthashastra. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts.

In 1818, insurance in India came from England and in the same year the advent of life insurance business in India came into existence with the establishment of the Oriental Life Insurance Company in Calcutta. In 1829, the Madras Equitable had begun life insurance business in Madras Presidency. Bombay Mutual (1871), Oriental Government Security Life Insurance Company (1874) and Empire of India (1897) were started in the Bombay Presidency followed by enactment of the British Insurance Act in 1870.

This era, however was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool & London Globe Insurance and the Indian offices were up for hard competition from foreign companies.

The Indian Life Assurance Companies Act, 1912 was the first statute to regulate the life insurance business. In 1928, the Indian Insurance Companies Act was enacted to enable the government to collect statistical information about life and non-life insurance business in India. In 1938, earlier legislation was consolidated and amended by the Insurance Act with the objective of protecting interests of the insurance public.

The Insurance Amendment act, 1950 abolished Principal Agencies. However, there were a large number of Insurance Companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

In 1956, 245 Indian and foreign insurance companies taken over by the Central Government and nationalized. Thus, Life Insurance Corporation of India came into existence. In 1972, general insurance business in India was also nationalized.

In 1993, the Government set up a committee under the chairmanship of R. N. Malhotra, former Governor of Reserve Bank of India (RBI) to propose recommendations for reforms in the insurance sector. The committee submitted its report in 1994, recommended that the private sector to be permitted to enter the insurance industry.

Following by the recommendations of Malhotra committee report in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted to regulate and develop the insurance industry. The IRDA opened up the insurance market in August 2000 for the private players.

## 2. Review of Literature

T. Hymavathi Kumari(2013) made performance evaluation of Indian life insurance industry in post liberalization by using various ratios. The study concluded that since opening up of Indian insurance sector for private players, India has reported increase in both insurance penetration and density. There is huge scope for life insurance in India. The total assets to earned premium ratio, investment income to earned premium ratio and investment income to total investment ratio expresses the financial solidity of an insurer and discloses the efficiency in investment decisions.

Krishna (2015) made a comparative study of public and private life insurance companies in India. For the purpose market share, fresh business premium, number of new policies issued and total life insurance premium compared. In terms of all parameters LIC is dominating. The study concluded that the insurance companies have to ensure quality products at a competitive price, companies can lower the price of the product by reducing the cost. Their survival depends upon their performance in profitability, productivity, efficiency and service quality.

Dr.Parmasivan (2015) made a comparative study of public and private life insurance companies in India. To measure financial performance solvency ratio, current ratio and debt equity ratio have been calculated. The study indicates that LIC continues to dominate the sector. Private sector insurance companies used the new business channels of marketing when compared with LIC. Selling more unit-linked plans helps private insurers grab market share from LIC. Solvency ratio and lapsation ratio of private insurers was much better than LIC. Servicing of death claims was better in case of LIC as compared to private life insurers.

Dr. Vikas Gairola (2016) compared public and private life insurance companies in post liberalization era. The study compares public and private sector life insurance companies in terms of new policies issued, total premium income and market share. The study shows that private life insurers put efforts to improve its performance year after year and affected the LIC in many ways. To overcome and compete with this situation LIC introduced new and attractive insurance plans, put efforts for better customer relationship management and effective advertising. There is very huge potential in life insurance sector as the population of India is very huge and still there is untapped life insurance market.

Sumit (2017) analysed profitability performance of life insurance companies in India using seven variables. Net Premium, income from investments, underwriting income, return on assets, combined ratio, solvency ratio and profit after tax were taken as variables. ANOVA was used to test the significance of variance in profitability of various insurers. The study found that among the private sector life insurance companies, the average net premium for the last 5 years was found highest in case of ICICI Prudential. The CAGR of investment income was found the highest in case of ICICI

prudential during the recent 5years.The CAGR of underwriting income has declined in case of every private sector life insurance company during recent 5 years .The study concluded that many of the life insurers in India are required to improve their underwriting income for sustainable development.They need to have control on expense ratio and other outflows so as to register profits.

### **3. Research Methodology**

#### **3.1 Research Statement**

This study analyses how liberalization had make impact on life insurance sector.

#### **3.2 Objectives of the Study**

The main objective of the study is to examine the impact of liberalization on life insurance business in India. The secondary objective is to compare the performance of public and private life insurance companies in India in post liberalization era.

#### **3.3 Scope of the Study**

The present study is made to understand the impact of liberalization on life insurance business in India.

#### **3.4 Research Methodology**

This research is descriptive as well as exploratory research.

#### **3.5 Methods and Materials**

The data used for this research is secondary in nature.The relevant and required data has been collected from journals,dailies, annual reports,magazines and websites of selected companies and through various search engines.

### **4. Life Insurance Companies in India**

At the end of March 2018, there are 24 life insurance companies operating in India, including a public sector company named Life Insurance Corporation of India and remaining 23 private sector companies competing with LIC for Life Insurance Business in India. All private and public sector life insurance companies in India were selected for the study. The companies selected for the research work are as follows.

(a)Public Sector:

Life Insurance Corporation of India.

(b)Private Sector:

- 1.AEGON Life Insurance Co. Ltd.
- 2.Aviva Life Insurance Co. India. Ltd.
- 3.Bajaj Allianz Life Insurance Co. Ltd.
- 4.Bharti Axa Life Insurance Co. Ltd.
5. Birla Sun Life Insurance Co. Ltd.
- 6.Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd.
- 7.DHFL Pramerica Life Insurance Co. Ltd.
- 8.Edelweiss Tokio Life Insurance Co. Ltd.
- 9.Exide Life Insurance Co. Ltd.
- 10.Future Generali India Life Insurance Co. Ltd.
- 11.HDFC Standard Life Insurance Co. Ltd.
- 12.ICICI Prudential Life Insurance Co. Ltd.
- 13.IDBI Federal Life Insurance Co. Ltd.
- 14.India First Life Insurance Co. Ltd.
- 15.Kotak Mahindra Old Mutual Life Insurance Ltd.

- 16.Max Life Insurance Co. Ltd.
- 17.PNB Met Life India Insurance Co. Ltd.
- 18.Reliance Nippon Life Insurance Co. Ltd.
- 19.Sahara India Life Insurance Co. Ltd.
- 20.SBI Life Insurance Co.Ltd.
- 21.Shriram Life Insurance Co.Ltd.
- 22.Star Union Dai-ichi Life Insurance Co.Ltd.
- 23.Tata AIA Life Insurance Co. Ltd.

## 5. Insurance Penetration and Density in India

The potential and performance of the insurance sector is globally assessed by two parameters.

### 1. Insurance Density

Life Insurance Density is defined as the ratio of premium underwritten to the total population.

### 2. Insurance Penetration-

Life Insurance Penetration is defined as the ratio of premium underwritten to the gross domestic product.

**Table:1 Insurance Penetration and Density an India**

Year	Life		Non-life		Total	
	Density (usd)	Penetration (%)	Density (usd)	Penetration (%)	Density (usd)	Penetration (%)
2001	9.10	2.15	2.40	0.56	11.50	2.71
2002	11.70	2.59	3.00	0.67	14.70	3.26
2003	12.90	2.26	3.50	0.62	16.40	2.88
2004	15.70	2.53	4.00	0.64	19.70	3.17
2005	18.30	2.53	4.40	0.61	22.70	3.14
2006	33.20	4.10	5.20	0.60	38.40	4.80
2007	40.40	4.00	6.20	0.60	46.60	4.70
2008	41.20	4.00	6.20	0.60	47.40	4.60
2009	47.70	4.60	6.70	0.60	54.40	5.20
2010	55.70	4.40	8.70	0.71	64.40	5.10
2011	49.00	3.40	10.00	0.70	59.00	4.10
2012	42.70	3.17	10.50	0.78	53.20	3.96
2013	41.00	3.10	11.00	0.80	52.00	3.90
2014	44.00	2.60	11.00	0.70	55.00	3.30
2015	43.20	2.72	11.50	0.72	54.70	3.44
2016	46.50	2.72	13.20	0.77	59.70	3.49
2017	55.00	2.76	18.00	0.93	73.00	3.69

In its annual report of the year 2017-18, IRDA states that during the first decade of privatization of life insurance sector, the sector has reported a consistent increase in insurance density from 9.1 USD in 2001 to 55.7 USD in 2010. In 2013, it decreased to 41 USD; however it slowly increased to 55.00 USD in 2017.

The life insurance sector has reported increase in insurance penetration from 2.15% to 4.60% in 2009. In 2014, it decreased to 2.60% however it slowly increased to 2.76% in 2017.

Globally, the share of life insurance business in total premium was 54.32%. However, the share of life insurance business for India was very high at 74.73%. In life insurance business, India is ranked 10th among the 88 countries. India's share in global life insurance market was 2.76% in 2017. However, during 2017, the life insurance premium in India increased by 8%, when global life insurance premium increased by 0.5%. These data shows the development of Life Insurance in India.

The future looks good for life insurance sector with changes in regulatory framework. India with 2.76% penetration rate in the life insurance sector offers greater penetration potential when compared to global average of 6.2%.

### 6. Comparison of Public And Private Life Insurance Companies in India

Before liberalization LIC was the only dominant player in life insurance. The IRDA opened up the insurance market in August 2000 for the private players. Comparison of public and private life insurance companies is made in terms of (A) market share, (B) number of new policies issued and (C) total life insurance premium.

#### (A) Market Share of Life Insurers Based on Total Premium

Market share is an important indicator of growth and performance of life insurance companies. It shows total sales of a company for a particular time period. The table shows market share of public and private life insurance sector from the period of 2000-01 to 2017-18.

**Table: 2 Market Shares of Life Insurers Based on Total Premium**

Year	Public sector (%)	Private sector (%)
2000-01	99.98	0.02
2001-02	99.46	0.54
2002-03	97.99	2.01
2003-04	95.29	4.71
2004-05	90.67	9.33
2005-06	85.75	14.25
2006-07	81.90	18.10
2007-08	74.39	25.61
2008-09	70.92	29.08
2009-10	70.10	29.90
2010-11	69.77	30.23
2011-12	70.68	29.32
2012-13	72.70	27.30
2013-14	75.39	24.61
2014-15	73.05	26.95
2015-16	72.61	27.39
2016-17	71.81	28.19
2017-18	69.36	30.64

The table indicates that the market share of LIC has been constantly decreasing from 99.98% in 2000-01 to 69.77% in 2010-11, there was nominal increase from 2011-12 to 2013-14 and once again it decreased in next four years.

On the other hand the market share of private life insurers has been increasing from 0.02% in 2000-01 to 30.23% in 2010-11, there was nominal decrease from 2011-12 to 2013-14 and once again it increased in next four years.

#### (B) Number of New Life Insurance Policies Issued by Life Insurers

The number of new life insurance policies issued by life insurance companies is also an important pointer of growth and performance of life insurance companies. The table shows the number of new life insurance policies issued by public and private life insurance companies from the period of 2002-03 to 2017-18.

**Table:3 Number of New Life Insurance Policies Issued By Life Insurers (In Lakhs)**

Year	Public sector	Private sector	Total
2002-03	245.46	8.25	253.71
2003-04	269.68	16.59	286.27
2004-05	239.78	22.23	262.11
2005-06	315.91	38.71	354.62
2006-07	382.29	79.22	461.52
2007-08	376.13	132.62	508.74
2008-09	359.13	150.11	509.23
2009-10	388.63	143.62	532.25
2010-11	370.38	111.14	481.52
2011-12	357.51	84.42	441.93
2012-13	367.82	74.05	441.87
2013-14	345.12	63.60	408.72
2014-15	201.71	57.37	259.08
2015-16	205.47	61.92	267.38
2016-17	201.32	63.24	264.56
2017-18	213.38	68.59	281.97

The number of new policies shows increase and decrease from 2002-03 to 2017-18. The table indicates that in terms of new policies issued LIC has sold maximum new policies in 2009-10. On the other hand the private life insurers have sold maximum new policies in 2008-09.

**(C)Total Life Insurance Premium**

Total premium is the main source of income for life insurance companies, so it is the most important barometer of growth and development of insurance sector. The table shows the total premium income of public and private life insurance companies from the period of 2000-01 to 2017-18.

**Table:4 Total Life Insurance Premium (In Crores)**

Year	Public sector	Private sector	Total
2000-01	34892.02	6.45	34898.47
2001-02	49821.91	272.55	50094.46
2002-03	54628.49	1119.06	55747.55
2003-04	63533.43	3120.33	66653.75
2004-05	75127.29	7727.51	82854.80
2005-06	90792.22	15083.54	105875.76
2006-07	127822.84	28253.00	156075.84
2007-08	149789.99	51561.42	201351.41
2008-09	157288.04	64497.43	221785.47
2009-10	186077.31	79369.94	265447.25
2010-11	203473.40	88131.60	291605.00
2011-12	202889.28	84182.83	287072.11
2012-13	208803.58	78398.91	287202.49
2013-14	236942.30	77359.36	314301.66
2014-15	239667.65	88433.49	328101.14
2015-16	266444.21	100499.02	366943.23
2016-17	300487.21	117989.26	418476.62
2017-18	318223.20	140586.24	458809.44

The table indicates that the total premium of LIC was 34892.02 crores in 2000-01, it increased to 318223.20 crores in 2017-18. Only in 2011-12 it decreased from the previous year. On the other hand the total premium of private life insurers was 6.45 crores in 2000-01, it increased to 1,40,586.24 crores in 2017-18. There was a decrease in total premium from 2011-12 to 2013-14.

## 7. Findings

- (a) Before IRDA opened up the insurance market for the private players, LIC is the only company in life insurance business. The total number of life insurance companies increased to 24 in 2018 especially in private sector to 23. This is an eminent growth of life insurance business in India due to liberalization.
- (b) Post liberalization, India has reported increase in both life insurance density and penetration. India with 2.76% penetration rate in life insurance sector offers greater penetration potential when compared to global average of 6.20% Life insurance density was 55.00(USD) in 2017-18 which is very low as compared to other developing and developed countries. So there is a huge scope for growth in coming years.
- (c) The market share of private life insurance companies on the basis of total premium has increased from 0.02% in 2000-01 to 30.64% in 2017-18. It shows the capability of private life insurers success in capturing the market share from LIC. LIC is still the market leader.
- (d) The number of new life insurance policies issued by private sector has increased from 8.25 lakhs to 68.59 lakhs in 2017-18. In case of LIC this number has decreased from 245.46 lakhs to 213.38 lakhs. The sales growth in new life insurance policies by private sector was due to sales of unit linked products.
- (e) The total premium income of life insurance sector has increased from 34,898.47 crores to 4,58,809.44 crores in 2017-18. This indicates tremendous growth in life insurance sector after the entry of private players.
- (f) The size of life insurance market increased with growing economy and increase in per capita income.

These findings proved that liberalization has made a significant impact on life insurance industry.

## 8. Conclusion and Suggestions

The life insurance market has been enlarged after liberalization, but still a vast Indian lives have been uninsured. India is a huge country with 65% people living in rural areas and 35% below poverty line require risk preventing social schemes with good quality. So it is required to inspect that up to what extent the life insurance industry is serving the requirements of the customers before and after the sale of policies. It is also required to examine up to what extent creative and inventive products are introducing to improve the performance of life insurance sector in India.

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