The Changing Face of Insurance Industry in India

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Abstract - India is one of the largest insurance market in the world. Strong economic growth in the last decade combined with a population of over one billion makes it one of the potentially largest markets in the future. Insurance in India has gone through two radical transformations. Before 1956, insurance was private with minimal government intervention. In 1956, life insurance was nationalized and a monopoly was created. In 1972, general insurance was nationalized as well. There are numerous private and government companies in India that are operating in insurance sector. These offer diversified product portfolio and excellent services to almost every Indian household.

Keywords:- Life Insurance, ULIP, penetration , Aggressive marketing, Premium

I. INTRODUCTION

India is the one of the largest market of insurance products in the world. Strong economic growth in the last few decades combined with a population of over 1.20 billion makes it one of the potentially largest markets in the future. Insurance in India has gone through two radical transformations. Before 1956, insurance was private with minimal government intervention. In 1956, life insurance was nationalized and a monopoly was created.

II. HISTORY AND EVOLUTION OF INSURANCE IN INDIA

In India the roots of Insurance has their origin in the era of Sage Manu and later in MAURYA Dynasty in the era of Kautilya who has written rules of Arthshastra (Economics) .
Manav Dharma Shastra of Manu contained rules for " Sea Form" contracts which were practised for doing international trade. In Kautilya Arthshaastra one of the lesson talks about the protection of state against the any natural calamity, theft or any act of Anti-Social-Elements. Therefore , India has the origin of Insurance thousands of years bck and later it has evolved inpresent form under the influence of English rule.

III. DEVELOPMENT OF LAWS OF INSURANCE IN INDIA

1938 – This is the year when a comprehensive Act called The Insurance Act, 1938 has been introduced.
1939 – In this year the Insurance Rules were framed for effectuating the Insurance Act.
1956 – This year has witnessed a huge change in the Indian Insurance Sector since the Government of India took over all life insurance companies.
1968 – In 1968 The Insurance Act, 1938 was amended to provide for social control, minimum solvency margin and a Tariff Advisory Committee (TAC)has also been established.
1972 – This year witnessed the Nationalization of General Insurance Companies and for this General Insurance Business (Nationalization) Act, 1972 was passed.
1973 – The General Insurance Corporation of India (GIC) came into existence as a Government Company.
1974 – A year later 107 insurers practising General Insurance business were grouped and merged to form four subsidiaries of GICs namely – National Insurance Co. Ltd. The New India Assurance Co. Ltd. The Oriental Insurance Co. Ltd. United India Insurance Co. Ltd.

1991 – The Public Liability Insurance Act 1991 and Public Liability Insurance Rules 1991 were introduced as another milestone in the series of Public Welfare Laws in India.1994 – The Malhotra Committee submitted its report in January 1994 (set up by Govt. in 1993 under Chairmanship of Shri R.N. Malhotra, former Governor of RBI, to examine potential reforms that could be undertaken in the insurance sector and complement them with reforms initiated in the other sectors) submitted its report in January 1994 and recommended establishment of a strong and effective insurance regulatory authority.
1998 – Insurance Ombudsman Redressal of Public Grievances Rules, 1998 were issued to provide Consumers a Forum with minimal formalities to get their grievances resolved.
1999 – This year has the great relevance in the history of Indian Insurance Sector since based on the Malhotra Committee Report the Insurance Regulatory and Development Authority (IRDA) was established to regulate, promote and ensure orderly growth of the insurance and reinsurance business in India.
2001 – The year of 2001 brought another transformation in the Insurance Business of India because in addition to the existing Government insurance companies, Private Sector Companies were also licensed by IRDA to conduct general insurance business in India.

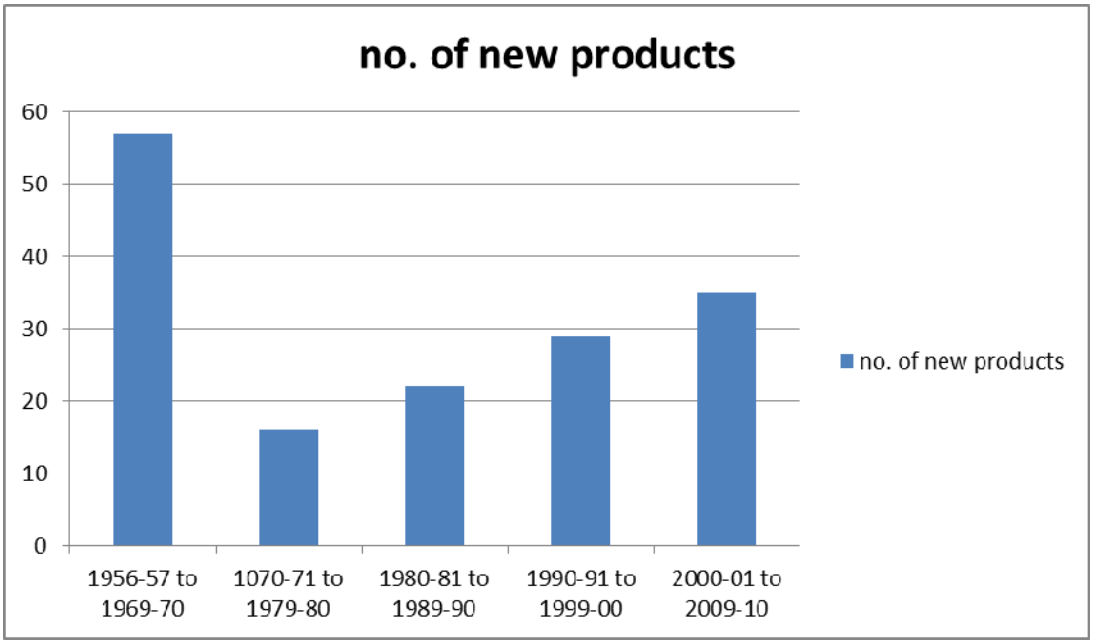
IV. PRODUCT INNOVATIONS

In fifties and sixties, the life insurance business was concentrated in urban areas and was confined only to the higher class of the society. Through the LIC act 1956, the LIC was formed with the capital of 50 million. One of the basic aims of setting up LIC was to bring insurance available to the lower segment of the society. In 1960s anf 1970s the growth of LIC insurance was slow. The reason for slow growth was poor infrastructure, low saving, low investment, high illiteracy etc. , however the positive change in infrastructure, industrialisation, capital formation and saving rate resulted in tremendous growth of LIC. But still the penetration rate of insurance was very slow. A pivotal role in the insurance market in India has been the entry of private players in 2000- 01. With the entrance of private players and foreign collaborations, penetration of insurance sector has grown from 1.02% in 1999-00 to 5.2 % of GDP in 2008-2009.
Before entrance of private players, it was observed that only endowment and money back policies were popular among consumers. But the new private players focused on providing customised products. Products that contain innovative features to the customers created favourable demands for other type of policies like term insurance plans, child plans, pension plans and Unit Lined Insurance Plans (ULIPs). Now companies provide child plans , pension plans and money back plans which are basically ULIPs.

TABLE 1

YEARS	No. Of New Products
1956-57 to 1969-70	57
1970-71 to 1979-80	16
1980-81 to 1989-90	22
1990-91 to 1999-00	29
2000-01 to 2009-10	35

Source : compiled from Annual report of IRDA



As shown in the above table, total life insurance products introduced in initial 44 years i.e. since the formation of LIC till the liberalization on life insurance industry, in 2000-01 are around 124 only. But the entry of private players brought tough competition among insurer and forced all of them to search for customized insurance products based on the needs of the customers.

Within last 10 years of liberalization of the sector, the insurer like LIC also introduced 64 new policies in the market. Today a variety of products are available ranging from traditional pure insurance products to new forms of insurance like Unit linked insurance plans providing protection towards child, endowment, capital guarantee, pension and group solutions.

V. CHANGING TRNDS IN LIFE INSURANCE POLICY

Apart from providing the financial security , tax benefits one major objective of insurance is saving and investment. Traditional insurance policies like endowment were becoming very unattractive to the policy holders as they found that the sum assured guaranteed on maturity had really deprecated in real value because of the depreciation in the value of money. The investor was no longer satisfied with the so called security of the capital provided under the policy of insurance and started showing interest in higher rate of returns on his investments as also for capital appreciation . For this he is even ready to take high risk. It was therefore found necessary for the insurance companies to think of a method whereby the expectations of the policyholders could be satisfied. Thus the objective of providing a hedge against the inflation through a contract of insurance compelled the insurer to link the insurance policy to the market and thus the industry observed the beginning of ULIPs (Unit Linked Insurance plans.

VI. UNIT LINKED INSURANCE PLANS VS NON LINKED INSURANCE PLANS

There are many difference between ULIPs and traditional plans. Some of them are discussed below in the table

FEATURES	**ULIPs**	**Traditional Policies**
1.Description	Insurance allows policy holder to invest part of premium into the market through equity, debt, money market etc. and risk is borne by the policyholder.	Insurer takes decision and usually invest in low risk return option. Insurer offers guaranteed maturity benefit with bonuses.

2. Flexiblity of the investment	Policy allows to choose from the investment options according to their risk profile.	Policyholder have no choice
3. Transparency	Policyholders can track their portfolio . They are also informed about the fund value and the number of units they hold.	Individuals cannot track their portfolio.
4. Maturity benefits	At the time of maturity policy holders redeems the units collected according to the then prevailing unit price.	Policyholder gets the sum assured.
5. Partial Withdrawal	Subject to some condition , policyholder is allowed to withdraw from their fund.	Policyholder is not allowed to withdraw from their fund. Some policies give loan facility.
6. Switching Options	Available with minimum charges	Not available.
7. Charges Structure	Charges are specified under various heads	Charges are not specified
8. Single premium top up	Allowed	Not allowed
9. Mitigation of Risk	ULIPS invest in multiple funds so offer low risk on returns. Customers can avail the benefit of market to get high returns without participating in the stock market.	Risk on returns is guarantee
10. Liquidity	Most of the ULIPs offer lock in period for 3 or 5 yrs, after which they allow either partial withdrawal or full withdrawak.	They don't offer any liquidity. They offer a loan facility.

The flexibility, transparency, high returns and other benefits have made the ULIPs a preferred option among the investors. They have changed the face of insurance industry in India. ULIPs provide the benefits of Mutual Funds and traditional insurance plans. Therefore , they are growing in doing business.

Things to keep in mind while opting for a Unit-linked Insurance Plan:

- Choose an appropriate life cover wisely keeping your needs and liabilities in mind, your sum assured should be sufficient to take care of all your liabilities in longer term.
- It provides you with desirable results only when bought for longer durations as the product charges are higher in the first few years.
- Choose your fund options carefully keeping your risk appetite in mind.
- Never forget to educate yourself about the charges incurred in ULIPs.
- Check for the switching option carefully knowing the number of free switches etc. throughout the policy term.

*NAV is the value of each unit of the fund on a given day.

VII. CONCLUSION

Almost all the industries in the world are trying hard for survival due to major economic recession, but Indian Life Insurance industry is one of the sector which is still observing major growth and is increasing year after year. It is the changing trend of the industry that has made it to cope with the changing economic environment. The insurance sector has modified itself by introducing customized products based on customer's need, through innovative distribution channels, Indian life insurance industry searched its path to grow. Changing government policy and guideline of the regulatory body, IRDA have also played a very vital role in the growth of the sector.
One of the positive step of the sector is to move from non linked to unit linked insurance policy. Similarly opening of the sector for private players and foreign companies broke the monopoly of the LIC and brought tough competition in the sector. This competition resulted into innovations products, pricing, distribution channels and marketing in the industry. Indian Insurance sector has a great potential to grow, as not even 50% of the population is covered under insurance yet. Companies should do a market research and survey so that the products launched are more meaningful and affordable for people. By adopting appropriate strategy along with proper government support and able guidance of IRDA, India will certainly become the new insurance giant in near future.

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