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A review on the future of life insurance: Reimagining the industry for the decade ahead

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Abstract
Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance industry contributes to the financial sector of an economy and also provides an important social security net in developing countries. The growth of the insurance sector in India has been phenomenal. The insurance industry has undergone a massive change over the last few years and the metamorphosis has been noteworthy.
Life Insurance is a co-operative risk sharing plan, based on the incentives of individual thrift andinitiative. Life insurance enables the people to go for savings during their earnings years to makeprovisions for future when their incomes cease because of early death, accident, retirement etc. itis also called as "Income Replacement Insurance" as it provides necessities as food, shelter andclothingif death cuts off the income ofthebreadwinner.
There are numerous private and government insurance companies in India that have becomesynonymous with the term insurance over the years. Offering a diversified product portfolio and excellent services the many insurance companies in India have managed to make their way into almost every Indian household. In this paper there is a detailed description on the changing trends that have take place in the insurance sector.

Keywords: Life *Insurance, Competitiveness, ULIP, Penetration ,Gross Premium.*

01.00 Introduction
Insurance involves pooling funds from many insured entities to pay for the losses that some may in cur. The insured entities are therefore protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event occurring. In order to be insurable, therisk insured against must meet certain characteristics in order to be an insurable risk. Insurance isa commercial enterprise and a major part of the financial services industry, but individual entitiescan alsoself-insure through savingmoneyforpossiblefuturelosses.
With an annual growth rate of 15-20% and the largest number of life insurance policies in force,the potential of the Indian insurance industry is huge. Total value of the Indian insurance market(2012-13) is estimated at Rs. 450 billion (US$10 billion). According to government sources, theinsurance and banking services' contribution to the country'sgross domestic product (GDP) is7% out of which the gross premium collection forms a significant part. The funds available with the state-owned Life Insurance Corporation (LIC)for investments are8%of GDP.

02.00 Historical Review of Insurance Industry in India
In 1818, a British company called Oriental Life Insurance setup the first insurance firm in Indiafollowed by the Bombay Assurance Company in 1823 and the Madras Equitable Life InsuranceSociety in 1829. Though all this companies were operating in India but insuring the life ofEuropean living inIndia only.Later some of the companies started providing insurance toIndians with approximately 20% higher premium than Europeans as Indians were treated as "substandard". Substandard in insurance parlance refers to lives with physical disability.
Bombay Mutual Life Assurance Society was the first company established in 1871 which startedselling policies to Indians with "fair value". Insurance business was subjected to Indian companyact1866, without any specific regulation. In 1905, the slogan "Be Indian-Buy Indian" declared by Swadwshi Movement gave birth to dozens of indigenous life insurance and provident fundcompanies. In 1937, the Government of India setup a consultative committee and finally firstcomprehensive 'InsuranceAct' waspassedin 1938.

A Change in Competitive Environment:
With the opening of insurance sector in India, the share of private insurer was very less. The totalshare of private insurer was just 2% in 2006-07. It was because of any reason which includescredibilityon private players.

Table-1:Market Share of Public and Private Insurance Companies

Source: Compiled from Insurance annual reports

Insurance sector	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Public(LIC)	98	94	87	78	73.66	65.28	59.65
Private	2	6	13	22	26.34	34.72	40.35

But soon because of innovative & customized products, novel distribution channels, aggressive marketing etc. private players gave a tough competition to public sectorcompany (LIC).Gradually, the market share of private insurer went up and till financial year 2012-13, total share of private insurer reached as high as 40.35%. The market share of LIC decreases after the entry of private insurer but it doesn't mean that the growth of LIC got down. LIC continue its growthevenafter a cut throat completionfrom theprivate players.

Table-2:Total Life Insurance Premium

(Rs.Crore)

INSURER	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07
LIC	149789.99	127822.84	90792.22	75127.29	63533.43	54628.49	49821.91
	(17.19)	**(40.79)**	**(20.85)**	**(18.25)**	**(16.30)**	**(9.65)**	**(42.79)**
PrivateTotal	51561.42	28253.00	15083.54	7727.51	3120.33	1119.06	272.55
	(82.50)	**(87.31)**	**(95.19)**	**(147.65)**	**(178.83)**	**(310.59)**	**(4124.31)**
Total(LIC+Private)	201351.41	156075.84	105875.76	82854.80	66653.75	55747.55	50094.46
	(29.01)	**(47.38)**	**(27.78)**	**(24.31)**	**(19.56)**	**(11.28)**	**(43.54**

Note: Figure in bracket indicates the growth over the previous year in percent.

As shown in table-2, total revenue generated in 2012-13 by LIC is 149783.99 crore against justRs.51561.42 crore, generated by all 21 private players. It shows that even after opening ofinsurance industry and heavy competition from the new entrant, LIC observed a continuousgrowthin its revenuegeneration.

03.00InnovationsofProducts

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 formedwith the capital of 50 million. One of the basic objectives of setting up the LIC was to extend thereach of insurance cover and make it available to the lower segment of the society. LIC observed minimum growth in 1960s and 1970s. This slow growth were caused by the factors like poorinfrastructure, low saving, low investment, high illiteracy etc. however the positive change inindustrialization, infrastructure, capital formation, saving rate resulted in tremendous growth ofLIC.Still the penetrationof insurancesectorwasverylow.

Before entrance of private players, it was observed that only endowment and money back policies were popular among consumers. But the new, private insurers focused on providingcustomized products, products that contain innovative features to the customers created favorabledemands for other type of policies like term insurance, child plan, pension plans and unit linked insurance policies(ULIPs).

TABLE-3

Years	No.ofNew Products
1956-57to1969-70	57
1970-71to1979-80	16
1980-81to1989-90	22
1990-91to1999-00	29

Source: Compiled from the annual reports of IRDA

As shown in table-3, total life insurance products introduced in initial 44 years i.e. since theformation of LIC (1956-57) till the liberalization on life insurance industry, in 2000-01 arearound 124 only. But the entry of private players brought tough completion among insurer and forced all of them to search for customized insurance products based on the needs

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of the customers.

Table-4

Company	TotalnewPRODUCTSlaunchedfrom2000-to2009-10
LifeInsuranceCorporationof India	64
HDFCStandardLifeInsuranceCo.Ltd.	57
MaxNewYorkLifeInsuranceCo.Ltd.	55
BirlaSun LifeInsuranceCo. Ltd.	58

Source: Compiled from annual reports of IRDA

The result of the same can be seen in table-4, within just 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 to Unit linked providing protection towards child, endowment, capital guarantee, pension and group solutions.

04.00 Changing Trends in Life Insurance Policy

Along with the other objectives of insurance like financial security, tax benefits etc. one of themajor objectives is saving and investment. Traditional life insurance policies like endowment were becoming unattractive and not meeting the aspirations of the policy holders as the policyholder found that the sum assured guaranteed on maturity had really depreciated in realvalue because of the depreciation in the value of money. The investor was no longer content withthe so called security of capital provided under a policy of life insurance and started showing apreference for higher rate of return on his investments as also for capital appreciation. It was, therefore found necessary for the insurance companies to think of a method where by the expectation of the policy holders could be satisfied. The objective of providing a hedge against the inflation through a contract of insurance pushed insurer to link the insurance policy with market and thus the industry observed the beginning of Unit linked insurance policy(ULIP).

- **Unit Linked VSN on Linked Insurance Plans:**
  There are so many advantages that ULIPs have over traditional policies. Some of them have been described below.

- **Features of ULIPs vs. Traditional Policies: Description**
  Insurer allows policy holder to direct part of their premiums into different type of fundslike equity, debt, money market, hybrid etc. and risk of investment is borne by policyholder. Insurer takes decision and usually invests into low risk return option. Insurer alsooffers guaranteed maturityproceedsalongwithdeclared bonuses.
- **Flexibility of investment**
  Policy allowed choosing their investment avenues as per their risk profile. Policy holdersarenot allowed tochoosetheirinvestment avenues.

- **Transparency**
  Policy holder cantracktheir portfolio.They are alsoinformed aboutthe value andnumberof fund units theyhold.Individual cannot track theirportfolio.

- **Maturity benefits payouts**
  At the time of maturity, policy holder redeems the unit collected at the then prevailingunit prices. Some plan also offers royalty or additional units annually or at the time ofmaturity. At the timeofmaturitypolicyholder get the sum assured plus bonuses.

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- **Partial withdrawal:**
  Subjected to some condition, policy holders are allowed to withdraw from their fund.Policy holders are not allowed to withdraw part of their funds. Instead, some policyprovidesfacilityof loanagainst the investment.

- **Charges structures**

Charges are specified under various heads. Charges are not specified. The flexibility, transparency, liquidity and fund options available with ULIPs made it the preferred choice of customers and gradually it changed the trend of insurance policy. This fact caneasilybeseenintable-5 showing recent three years trends in sale of ULIPs and traditional policies.

Table-5

Company	**Plans**	**EntryAge**		**Term**	**Maturity Age**
Aviva	LifeSaverPlus	Minimum-0 years	Maximum-60 years	10-30 years	18-75years
ICICIPrudential	LifeStageRP	Minimum-0 years	Maximum-65 years	10-75 years	19-75years
Kotak	SmartAdvantage	Minimum-0 years	Maximum-65 years	10-30 years	NA
LIC	MoneyPlus	Minimum-0 years	Maximum-65 years	05-30 years	18-75years
Max NewYork Life	LifeMaker Platinum	Minimum-12 years	Maximum-60 years	10-58 years	70years
MetLife	MetSmart Premier-RP	Minimum-91Days	Maximum-70 years	NA	100years

	UnitLinkedBusiness (%)			**Non-linkedBusiness(%)**		
	2010-11	**2011-12**	**2012-13**	**2010-11**	**2011-12**	**2012-13**
Private	82.3	88.75	90.33	17.7	11.25	9.67
LIC	29.76	46.31	62.31	70.24	53.69	37.69
Industry	41.77	56.91	70.3	58.23	43.09	29.7

Table-6:ULIPS Plan ComparisonChart
Source:http:///www.bimadeals.com/life-insurance-india

In order to en cash the favorable environment for ULIPs, All the players in the industry areoffering innovative and customized ULIPs with respect to entry age of the customer, term of thepolicy, maturity age etc. to get edge over others. Table -6 depicts the comparison chart of ULIPsplanlaunched bysomemajor player of theindustry.

05.00Conclusion

Where almost all the industries in the world trying hard for survival due to the major economicmeltdown, Indian life insurance industry is one of the sectors that is still observing good growth.It is the changing trends of Indian insurance industry only that has made it to cope with thechanging economic environment. Indian insurance industry has modified itself with the passage of time by introducing customized products based on customers' need, through innovative distribution channels, Indian life insurance industry searched its path to grow. Changing government policy and guideline of the regulatory authority, IRDA have also played a very vitalrole in the growth of the sector. Move from non-linked to unit liked insurance policies is one ofthemajor positive changes inIndian lifeinsurancesector.

06.00References

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