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### INDIAN ECONOMY AND LIFE INSURANCE INDUSTRY IN INDIA - A CRITICAL ANALYSIS

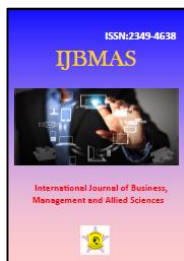
SANTHA GANESH IYER<sup>1</sup>, Dr. ARANGANATHAN<sup>2</sup>, PRATIBHA PANDEY<sup>3</sup>

<sup>1</sup>Faculty, School of Economics & Commerce, CMRU, Bengaluru

<sup>2</sup>Associate Professor, School of Economics & Commerce, CMRU, Bengaluru

<sup>3</sup>Faculty, School of Social Science & Humanities, CMRU, Bengaluru

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#### ABSTRACT

Life insurance industry in India has been playing a prominent role in the economic development of India. In spite of growing number of life insurance companies in our country, the insurance awareness and penetration are not at satisfactory level. In fact, soon after liberalization and privatization in the year 2000, the private life insurance players were able to attract the sizable mass of the Indian population for buying the life insurance products. The entry of private insurance players made LIC (Life Insurance Corporation of India) more competitive regarding the different aspects and features of insurance product. Though the performance of insurance industry (Life as well as Non-Life) in India is improving with the help of new technologies, government initiatives and variety of products, the actual state of affairs along with the reasons and contributing factors regarding the performance of life insurance industry has become very essential in recent time of economic slowdown.

The present paper primarily deals with the performance of life insurance industry based on five factors: the market position, new business premia, total premia, Claim settlement ratio, life insurance density and penetration. According to market development analysis, ongoing economic slowdown might have affected the life insurance industry to some extent but it has become indispensable to evaluate the performance of life insurance industry on mentioned factors.

**Keywords:** Life Insurance, LIC, penetration, premium, risk, return, etc.

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#### 1. INTRODUCTION

The importance of life insurance is considered the major force behind an individual's risk management approach towards life. Life insurance product adds value to the investment along with the risk coverage of individual's life. Different non insurance financial products available in the market focus on risk and return in terms of money but life insurance products possess unique features of risk

and return in terms of human life value. The aspect of risk coverage coupled with the return has made life insurance product attractive to some extent among the people having a positive outlook towards financial literacy and balanced personal financial planning. This kind of approach of Indian mass has been contributing to the achievement of financial stability, development of trade and commerce, effective and efficient risk management programs, mobilization of savings etc. and all these contributions in turn impact positively economic growth and development.

The Indian life insurance industry has gone through various stages to attain the present position in Indian financial market. The traditional life insurance products of past years have been enhanced and modernized with innovative features to meet the individual's need of investment with risk and reward. With the change in consumer's perception and awareness, the life insurance industry has shown a remarkable and radical change in its business. Another major impact on this industry is the entry of private life insurers which has contributed to the competitiveness in life insurance sector. The healthy competition between LIC – a public sector life insurance giant and private life insurers has been playing an important role towards the economic reforms and development. The selection of life insurance as an ideal investment has proved beneficial to life insurers and thus growing economy. But at the same time the recent economic slowdown has raised questions regarding sharp reversal of economic performance and the role of life insurance industry in this performance. So, it becomes mandatory/necessary to evaluate the performance of life insurance industry on select parameters of life insurance business.

## 2. REVIEW OF LITERATURE

Monalisa Ghosal (2012)<sup>3</sup> concluded that the growth in life insurance sector in terms of number of policy holders, policy premium, new product and increased technology focus has been proved to play an important role in facilitating and sustaining growth in Indian economy.

Anju Varma and Renu Bala (2013)<sup>1</sup> investigated with the help of a dataset of 77 countries that life insurance development and economic growth are related and life insurance density impact plays a significant role in developing countries rather than developed ones.

Yogesh (2013)<sup>11</sup> revealed that the rate of growth in life insurance sector has a positive influence on economic development and hence an increase in the pace of reforms are the need of the hour.

D. Rajasekhar and T. Hymavathi (2014)<sup>5</sup> found that private players in life insurance sector has contributed to economic growth by attracting the people with their innovative products.

B. Nagaraja (2015)<sup>4</sup> examined that insurance penetration and density is very low compared to the global positions and that exist in the developed countries.

Sheharish J Ansari and Amir Rehmani (2016)<sup>6</sup> studied that life insurance industry in India has gone through the structural changes under the combined impact of financial sector reforms.

Sonal Nena (2013)<sup>8</sup> studied the performance of LIC with the help of various components of expenses and concluded that LIC needs to control the operating expenses to retain its position as life insurance major.

Suganthamani C.V. and Nagesh Kumari (2016)<sup>9</sup> highlighted that life insurance sector has gone through tremendous changes ever since it was opened to private insurers and this in turn contributed to development of Indian economy.

Sunita Mall (2016)<sup>10</sup> explained the impact of different macro-economic variables related to life insurance on India's economic growth.

Shilpa Agarwal and A. K. Mishra (2017)<sup>7</sup> opined that life insurance industry has created value for its customers or policy holders and there is huge potential for life insurance to enhance its business in terms of technology innovations, client relationships and quality.

Honnappa (2017)<sup>2</sup> highlighted on the need of insurance research in India. He found that there is a wide scope for initiating life insurance research in India and this would be beneficial to Indian insurance market at great level.

### 3. RESEARCH OBJECTIVES

The study was conducted with the following objectives:

- (i) To compare the performance of life insurance industry in India with life insurance industry of other countries.
- (ii) To analyze the performance of life insurance industry in India in term of new business premium and renewal premium for past 10 years and hence to predict its performance in future
- (iii) To critically analyze the impact of life insurance business on current economy and income, etc.
- (iv) To test the association between age and buying preference towards various types of life insurance products and its impact on economy.

### 4. RESEARCH METHODOLOGY

The study was descriptive and analytical in nature which was conducted using both primary and secondary data. The secondary data was collected from various sources such as Global and Indian life insurance websites, RBI circulars, IRDAI circulars, Annual reports, journals and finance newspapers. The data were analyzed using graphs, descriptive methods, trend analysis and time series regression technique.

The primary data was also collected using questionnaire from 162 respondents belonging to Bangalore city belonging to age group of 25- 65 years adapting simple random sampling technique. Chi-square test was used to find the association between age and readiness towards buying insurance product.

### 5. DATA ANALYSIS & DISCUSSION

#### Global view of Indian life insurance industry

**Table 5.1: India in Global life insurance market (US \$billion)**

Region/country	Life insurance premium (US \$ billion)	Growth rate %
Advanced markets	2231.35	0.8
Emerging markets	588.82	-2.0
Asia- Pacific	1092.85	-0.1
India	73.74	7.7
World	2820.18	0.2

*Source: IRDAI Annual Report 2018-19 (financial year ended 31<sup>st</sup> March,2019)*

The data in Table 5.1 shows that the world life insurance market made the growth of 0.2 %, which is not satisfactory. The emerging and Asia-Pacific market witnessed negative growth. But India is better placed than other regions with the growth rate of 7.7%.

**Market Position – Indian life industry scenario****Table 5.2: Market Share of first ten life insurance companies (in %) 2018-19**

Rank	Insurer	Premium	Policies	Sum Assured
1	LIC of India	66.24	74.71	75.21
2	HDFC Life	6.97	3.37	13.98
3	SBI Life	6.42	5.32	7.88
4	ICICIPru Life	4.78	3.12	10.22
5	Max Life	2.40	2.25	5.91
6	Bajaj Allianz	2.29	1.08	5.72
7	Kotak Mahindra	1.85	1.21	4.32
8	Aditya Birla Sun Life	1.82	1.00	5.35
9	Tata AIA	1.15	1.22	3.13
10	India First Life	0.93	0.62	2.40

Source: IRDAI Annual Report 2018-19 (financial year ended 31<sup>st</sup> March, 2019)

The data in Table 5.2 shows the market share of first ten life insurance companies. Though LIC is at 1<sup>st</sup> position in terms of market share

But according to IRDAI, LIC lost market share to private players by 3% as it had a market share of 69 per cent in 2017-18.

**Growth in Life insurance industry – 2018 Vs 2019****Table 5.3: Percentage growth of life insurance industry**

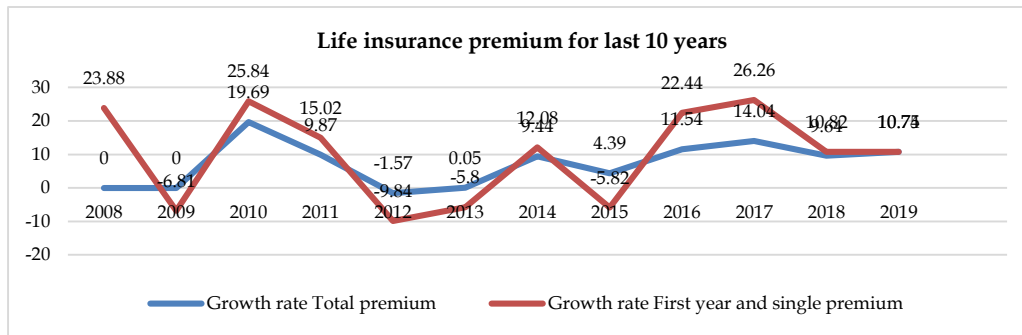
	2018	2019	Growth %
Number of policies	28198778	28687812	1.73%
Premium(crores)	193866.24	214672.86	10.73%
Sum Assured (crores)	3882171.65	4333541.41	11.63%

Source: IRDAI Annual Report 2018-19 (financial year ended 31<sup>st</sup> March, 2019)

The data in Table 5.3 shows the percentage growth in terms of policies, sum assured and premium income. The data shows that the growth is negligible in number of policies sold which indicates that the market has the potential to tap low premium plans.

**New Business Premium, Single premium and total premia**

Graph 5.1: Life insurance single premium



Source: IRDAI Annual Report 2018-19 (financial year ended 31<sup>st</sup> March, 2019)

From above graph, it is evident that the growth rate of new business premium for year 2017 to 2018 dropped down by 16%, also there is no improvement from 2018 to 2019. The negative rate was also present for the years 2009, 2012, 2013 and 2015. This is an indicator of slowdown in life insurance new policies market.

### Claim settlement performance

Table 5.4: Claim settlement ratio of Life insurance companies as on March 2019

Sr. No.	Life Insurer	Claim Settlement Ratio	
		% of no. of policies	% of benefit amount
1	Aditya Birla Sun Life	97.15	89.93
2	Aegon life	96.45	95.98
3	Aviva Life Insurance	96.06	95.40
4	Bajaj Allianz Life	95.01	89.37
5	LIC	97.79	95.32

Source: IRDAI Annual Report 2018-19 (financial year ended 31<sup>st</sup> March, 2019)

The performance of life insurance companies is measured in terms of claim settlement. From the above table it is evident that the claim settlement ratios are appreciable and which instills the confidence and trust among the people to buy insurance products.

### Prediction of life insurance new business premium and total premium based on past 10 years using time series regression technique in EXCEL (premium in ₹ crores)

Table 5.5: Life Insurance total and new business premium

Year (X)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Premium	2.65	2.91	2.87	2.87	3.14	3.28	3.66	4.18	4.58	5.08
New Business premium(Y)	1.09	1.26	1.39	1.07	1.2	1.13	1.38	1.75	1.94	2.15

Source: IRDAI Annual Report 2018-19 (financial year ended 31<sup>st</sup> March, 2019)

Table 5.6: Time series Regression Statistics

	Total Premium	New Business Premium
Multiple R	0.943123769	0.827172921
R Square	0.889482444	0.684215042

Adjusted R Square	0.875667749	0.644741922
Standard Error	1.067573088	0.226671109
Observations	10	10

Table 5.7: ANOVA

	F statistic	P value
<b>Total premium</b>	64.38669	4.27314E-05
<b>New Business premium</b>	17.3337	0.003151
	Intercept	X Coefficients
<b>Total premium</b>	2.101333333	0.25830303
<b>New Business premium</b>	0.826833333	0.121833333

**Regression Model:  $Y = A + BX$** 

Prediction of New Business Premium for year 2025

$$Y = 0.82683333 + 0.121833333 * 17 = 2.898 \text{ (X = 17 for the year 2025)}$$

Prediction of total Premium for year 2025

$$Y = 2.1033333 + 0.25830303 * 17 = 6.492485 \text{ (X = 17 for the year 2025)}$$

The regression and ANOVA output show that the data fits the regression model and also it is statistically significant at 5% level of significance. Adjusted R<sup>2</sup> values gives the variation in premium due to time, which is less in case of New business premium as the this shows the increasing trend but at lower growth rate.

Since the model is good fit for the data, it is used to predict the new business premium and total premium for year 2025. The predicted new business premium and total premium for the year 2015 are ₹ 2.898 crore and ₹ 6.4924 respectively.

**Age of the respondents Vs preference of buying specific type of life insurance product**

Chi Square analysis was used to analyze the association between the age of the respondents and their preference of buying specific type of life insurance product. The following hypothesis was formulated:

Ho: There is no association between age and preference of buying life insurance Product

H<sub>1</sub>: There is association between age and preference of buying life insurance Product

Table 5.8: Age \* preference of buying Cross tabulation

Age Category	Preference of buying				Total
	Term Insurance	Endowment	Single Premium	Market linked Insurance	
< 30 years	25	18	6	17	66
Between 30 - 45 years	8	26	4	6	44
More than 45 years	11	9	20	12	52
Total	44	53	30	35	162

**Table-5.9 Chi Square Test:**

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	36.835	6	0
Likelihood Ratio	34.485	6	0
Linear-by-Linear Association	3.695	1	0.045
N of Valid Cases	162		

Chi-square value is significant at 5% level of significance and hence it is concluded that age and preference of buying insurance product is associated.

Also, Cramer's V value is 0.609, which shows moderate association and significant at 5% level of significance.

Since single premium life insurance products add more income to new business income and from the collected data it is evident that only 30 out of 162 have showed the interest towards buying single premium insurance products. It can be concluded that due to slowdown in economy (as market rates are not attractive), the life insurance single premium products are not gaining momentum at present time.

#### **GDP, Life insurance penetration and Life insurance density:**

**Table 5.10: GDP, Life insurance penetration and life insurance density**

Year	GDP (in \$billion)	Penetration (premium as % of GDP)	Density (\$) (Premium per capita)
2008	1198.9	4	41.2
2009	1341.89	4.6	47.7
2010	1675.62	4.4	55.7
2011	1823.05	3.4	49
2012	1827.64	3.17	42.7
2013	1856.72	3.1	41
2014	2039.13	2.6	44
2015	2103.59	2.72	43.2
2016	2290.43	2.72	46.5
2017	2652.55	2.76	55
2018	2726.32	2.74	55

The life insurance penetration clearly shows the downward trend which clearly indicates that there is a downward trend in first year life premiums. This again shows the slowdown in economic activity due to life insurance industry. Life insurance density has improved marginally over last two years. Both the measures indicate that the life insurance market has not been tapped at large level.

## **6. MAJOR FINDINGS**

- It is found in present study that India's Life insurance sector contributed 2.61 % towards the world's life insurance sector in the year 2018 but during this year the life insurance premium increased by 7.7% against 2.2 % increase in world's life insurance premium.
- The public sector LIC is at the first position with market share of 66.24 whereas private sector life insurance companies collectively hold 33.76 % market share in India.



- The percentage growth in life insurance in the year 2019 over 2018 was very low for new business policies at 1.73% but in terms of premium and sum assured it was 10.73% and 11.63% respectively.
- There was downward trend in new business premium (first year and single premium in the years 2009, 2011, 2012, 2015 and 2018. This downtrend trend affected the total premium also in these years. In addition to this the in the year 2019 also, there was no improvement in new business premium growth rate.
- Regarding claim settlement ratio, the major life insurance companies performed very well. That is there was no negative impact due to the decreased life insurance premium rate and hence it can be concluded that the life insurance companies are sound in term of liquidity.
- The predicted values of life insurance total premium and new business premium for the year 2025 are ₹ 6.49 crore and ₹ 2.89 crore respectively based on past 10 years' time series data.
- It is found with the help of primary data of 52 sample size that the age and the selection of life insurance product are associated which focuses on the significance of need based life insurance products to tap the life insurance market effectively.
- The life insurance penetration for last 5 years was very low and did not show any upward movement which is the result of slowdown in economy.

## 7. CONCLUSION

The life insurance industry in India has shown the remarkable development in term of variety of insurance products and service during the initial years of post-liberalization with increased competition in the market. But this increased business has not resulted into increased business in terms of life insurance policies and premium income. In the context of slowdown in the economy, it can be concluded from the last 10 years data this slowdown has a major impact on life insurance business the market with need-based products integrated as the growth rate of new business premium showed the downward trend, marginal increase or remained stagnant during last 10 years. The reason behind this is the incapability of life insurance companies to tap with unique feature of risk coverage. In addition to this, the private segment of life insurance business is dominated by a few large firms and thus shows a very heterogeneous market structure. Moreover, the nature of life insurance business by the private life insurance companies is either drawn by ULIPs or by banc assurance.

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