EFFICIENCY & PRODUCTIVITY OF INDIAN LIFE INSURANCE SECTOR

Sangeeta Bhatia

Singhania University, Jhunjhunu (Rajasthan)(India)

ABSTRACT

Life insurance covers primarily like a risk transfer mechanism to provide peace of mind and protect against losses. Insurance schemes utilize the combination method by persuading a large number of individuals to pool their risks into a large group to minimize overall risk. In the developing countries like the need for a safety net is essentially required especially at the poorest level where the vulnerability to risks is more and there are only few opportunities available to recover from a loss. Whereas, in developed countries, insurance is a part of social welfare measures which covers the safety by virtue of its law or legislations.

Indian life insurance being a flourishing industry is joined by several national and international players. After opening of the sector for private participation on the ground that in spite of enormous contributions made by the public sector to expand the coverage and spread awareness about insurance, the interests of the consumers would be better served. The productivity ratio reflects the efficiency in operations, which ultimately indicates the management efficiency and soundness of the sample life insurance companies as good both in the case of LIC and other eleven private life insurance companies. The life insurance market will see a healthy competition with the opening up of developing markets to competition, there is a greater impetus to demand growth and volumes would start dictating economic sizes and pricing. This fuels mergers and acquisition and makes survival of small sized firm difficult.

Keywords*: *Acquisition, Economic, Protect, Proportionate, Measurement

I. INTRODUCTION

Life Insurance in India was nationalized by incorporating Life Insurance Corporation (LIC) in 1956. In 1993 the Government of India appointed RN Malhotra Committee to lay down a road map for privatization of the life insurance sector. A new era began in the Indian insurance sector, with the passing of the Life Insurance Act of 1912.

In the pre-reform era of Independent India, Life Insurance Corporation (LIC) was the only insurance player as far as life insurance is concerned. Though Peerless & General Insurance also started some commercial business but for its own obvious reasons could not last a long. During and after the introduction of Economic Reforms there has been drastic change in insurance sector especially with the introduction of IRDA in the year 1999. With the amalgamation of new Act and power conferred to the regulator private players started showing their interest and making entries into the field of life insurance sectors also.

Primary function of insurance to act as a risk transfer mechanism to provide peace of mind and protect against losses. Insurance schemes utilize the combination method by persuading a large number of individuals to pool their risks into a large group to minimize overall risk. In the developing countries like the need for a safety net is essentially required especially at the poorest level where the vulnerability to risks is more and there are only fewer opportunities available to recover from a loss. Whereas, in the case of developed countries, insurance is a part of social welfare measure and a kind of risk minimizing guarantee provided by virtue of its law or legislations.

With the recommendation of Malhotra Committee in 1994 on life insurance business in India expression of private and foreign life insurance companies were gradually increased.

The business as a socio-economic activity is, therefore planned to be bailed out through the system of assurance by the other party. Insurance in legal sense 'it is a contract by which one party in consideration of the price paid to him proportionate to the risk provides security to other party that he shall not suffer loss, damage or prejudice by the happening of certain specified events. Insurance is meant to protect the insured against uncertain events which cause disadvantage to him. Though there used to be monopoly of one state owned life insurance organization called Life Insurance Corporation of India with the entries of private players there was a change of good amount and now the private players of life insurance sector enjoy a market share of 40% approx. Indian life insurance being a flourishing industry is joined by several national and international players. After opening of the sector for private participation on the ground that in spite of enormous contributions made by the public sector to expand the coverage and spread awareness about insurance, the interests of the consumers would be better served. Life Insurance is the fastest growing sector in India, since 2000 as Government allowed Private players and FDI up to 26 per cent. After that the IRDA bill in parliament was passed in Dec.'99. As per the provisions of IRDA Act, 1999, the Insurance Regulatory and Development Authority was established on 19th April, 2000 to protect the interests of policyholders and to regulate, promote and ensure orderly growth of the insurance industry. In-spite of this significant status of insurance sector in India, nearly 80 percent of population is without life insurance cover, health insurance and non-life insurance. In other words, insurance coverage is far below the international standards.

As there is an immense growth potential for insurance sector in India which indicates that there is a huge potential for insurance business in the country, the evaluation of the performance of life insurance industry in India is required and undertaken.

With the liberalization and entry of private companies in insurance, the Indian insurance sector has started showing signs of significant change. From the data analysis it has been inferred that within a short span of time, private life insurance companies have registered a positive sign of productivity in terms of agent and branch expansion. The productivity ratio reflects the efficiency in operations, which ultimately indicates the management efficiency and soundness of the sample life insurance companies as good both in the case of LIC and other eleven private life insurance companies.

II. OBJECTIVES OF THE STUDY

The present study is mainly aimed to investigate the operational, financial and managerial performance for a period of various life insurance players for a span of ten years. The very purpose or general objective is to examine the impact of life insurance business in India in terms of established operating business parameters.

ISBN: 978-93-86171-26-9

In addition to the general objectives, the following are the specific objectives of the study:

a) To examine the structure and review of banking and insurance industry in India

b) To study the performance of life insurance industry in India during the study period.

c) To draw policy conclusions on the basis of the findings and to make suggestions for enhancing the present status of the Life Insurance business in India.

III. RESEARCH METHODOLOGY

The study relates to the "Life Insurance Industry in India" and employs secondary data. The secondary data is proposed to be collected from the relevant annual reports of Life Insurance Company Limited, Handbook of IRDA (various issues), statistical year book of LIC, Yogakshem and various news bulletins of LIC. The annual reports of IRDA and other related literature available both as hard copy and on the net have been consulted for collection of data. The performance of life insurance industry will be calculated by way of percentages in respect of premium income, new policies issued number of individual agents, corporate agents, insurance penetration and density, equity share capital, total income and market share have been evaluated.

Measurement of Partial Factor Productivity which means the output per unit of input and there are as many indices of productivity as there are inputs. Therefore, by adopting gross value added as output, only four factors of input i.e. Labour, Capital Branches and Policies are proposed to be considered in this study.

The factors related to productivity of labour, capital, Branches and Policies are also proposed to be considered and these include:

- The Agent productivity
- Capital productivity
- Branches productivity
- Policies productivity and Capital intensity

For quantifying the Labour (agent) Productivity other components like the premium, capital, expenses on various counts is proposed to be included.

IV. LITERATURE REVIEW

An economic measured of output per unit of input. Inputs include labour and capital, while output is typically measured in revenues and other GDP components such as business inventories. Productivity measures may be examined collectively (across the whole economy) or viewed industry by industry to examine trends in labour growth, wage levels and technological improvement. Productivity is a measure of the efficiency of production. Productivity is a ratio of production output to what is required to produce it (inputs). The measure of productivity is defined as a total output per one unit of a total input. These definitions are short but too general and insufficient to make the phenomenon productivity understandable. A more detailed theory of productivity is needed, which explains the phenomenon productivity and makes it comprehensible. In order to obtain a measurable form of productivity, operational zing of the concept is necessary. In explaining the operational zing a set of production models are used.

ISBN: 978-93-86171-26-9

Various studies related directly or indirectly to the objectives of the present study are proposed to be reviewed. Though there are very lesser researches undertaken to compare the Life Insurance Company with private players in terms of performance evaluation using the different methodology.

V. DATA ANALYSIS AND DISCUSSION

The average productivity of a single agent of LIC was Rs.11.255 lakhs in 2001-02 and with yearly fluctuation it stood at the average annum growth of intermediary production in terms of gross premium collection of this public sector insurance companies was noted to be 2.32 per cent during the study period with a co-variation of 33.82 per cent. This is far lesser than the other private life insurance companies' agent productivity. This implies the impact of private sector entry into Indian insurance business and growth of competitive pressure from domestic private insurance companies. The assessments of some of the insurance companies operating in India with their latest and updated financial results are proposed to be undertaken. Past results of such companies are:

- The average productivity of a single agent of BIRLA life insurance was Rs.1.407 lakhs in 2001-02 and increased to Rs.3.927 lakhs in 2010-11 with yearly fluctuation it stood at the average annual growth of 1.85 per cent.
- An average premium value of Rs.5.13 lakhs collected per year per agent with a co-variation of 93.01 per cent. The average productivity of a single agent of ICICI life insurance was Rs.1.072 lakhs in 2001-02 and increased to Rs.9.391 lakhs in 2010-11 with fluctuation it stood at the average annual growth of 20.22 per cent.
- An average premium value of Rs.5.17 lakhs collected per year per agent with a co-variation of 60.69 per cent. The average productivity of a single agent of ING life insurance was Rs.0.369 lakhs in 2001-02 and increased to Rs.4.889 lakhs in 2010-11 with yearly fluctuation it stood at the average annual growth of 28.82 per cent. And an average premium value of Rs.2.29 lakhs collected per year per agents with a co-variation of 69.72 per cent.
- The average productivity of a single agent of HDFC life insurance was as Rs.1.041 lakhs in 2001-02 and increased to Rs.0.665 lakhs in 2010-11 with yearly fluctuation it stood at the average annual growth of 1.39 per cent. An average premium value of Rs.3.38 lakhs collected per year by per agents with a co-variation of 81.02 per cent.
- The average productivity of a single agent of MAXNEW life insurance was Rs.1.487 lakhs in 2001-02 and it increased to Rs.13.349 lakhs in 2010-11 with yearly fluctuation it stood at the average annual growth of 20.22 per cent. And an average premium value of Rs.5.57 lakhs collected per year per agents with a co-variation of 62.41per cent.
- The average productivity of a single agent of Reliance life insurance was Rs.0.001 lakhs in 2002-03 and increased to Rs.3.469 lakhs in 2010-11 with yearly fluctuation it stood at the average annual growth of Rs.1.30 lakhs were collected per year per agent with a co-variation of 119.10 per cent.
- The average productivity of a single agent of TATA life insurance was Rs.0.300 lakhs in 2001-02 and increased to Rs.4.569 lakhs in 2010-11 with yearly fluctuation it stood at the average annual growth of

ISBN: 978-93-86171-26-9

28.82 per cent. TATA collected an average premium of Rs.2.71 lakhs per year per agent with a co-variation of 64.50 per cent.

- The average productivity of a single agent of MET life insurance was Rs.0.115 lakhs in 2001-02 and increased to Rs.8.697 lakhs in 2010-11 with yearly fluctuation it stood at the average annual growth of 41.25 per cent. An average premium value of Rs.2.82 lakhs collected per year per agent with a co-variation of 85.17 per cent.
- The average productivity of a single agent of SBI life insurance was Rs.2.043 lakhs in 2001-02 and increased to Rs.16.850 lakhs in 2010-11 with yearly fluctuation it stood at the average annual growth of 23.02 per cent. SBI collected an average premium of Rs.12.46 lakhs per year per agent with a co-variation of 67.25 per cent.
- The average productivity of a single agent of BAJAJ life insurance was Rs.0.163 lakhs in 2001-02 and increased to Rs.5.067 lakhs in 2010-11 with yearly fluctuation it stood at the average annual growth of 41.25 per cent. Its average premium of Rs.3.17 lakhs collected per year per agent with a co-variation of 70.81 per cent.
- The average productivity of a single agent of KOTAK life insurance was Rs.0.562 lakhs in 2001-02 and increased to Rs.7.775 lakhs in 2010-11 with yearly fluctuation it stood at the average annual growth of 23.02 per cent. An average premium of Rs.5.84 lakhs collected per year per agent with a co-variation of 75.95 per cent.
- MET life insurance and Bajaj life insurance have highest growth of 41.25 per cent per annum.

Table shown below depicts the average productivity of single agent per branch of life insurance companies in India from the study period 2001-02 to 2010-11.

Insurance Agency (Single Agent)	Year 2001-02	Year 2010-11
ICICI Life Insurance	Rs 11.255	Rs 9.391
Birla Life Insurance	Rs 1.407	Rs 3.927
ING Life Insurance	Rs 0.369	Rs 4.889
HDFC Life Insurance	Rs 1.041	Rs 0.665
Max New Life Insurance	Rs 1.487	13.349
Tata Life insurance	Rs 0.300	Rs 4.569
Met life Insurance	Rs 0.115	Rs 8.697
SBI Life Insurance	Rs 2.043	Rs 16.850

ISBN: 978-93-86171-26-9

Bajaj Life insurance	Rs 0.163	Rs 5.067
Kotak Life Insurance	Rs 0.562	Rs 7.775

VI. Conclusions and Recommendations

The life insurance market will see a healthy competition with the opening up of developing markets to competition, there is a greater impetus to demand growth and volumes would start dictating economic sizes and pricing. This fuels mergers and acquisition and makes survival of small sized firm difficult. Though life insurance sector had not seen any merger and acquisition as yet but in the near future, with the growth of the market, such problems shall come up.

REFERENCES

(1) Annual reports of Life Insurance Company Limited
(2) Handbook of IRDA (various issues)
(3) Statistical year book of LIC, Yogakshem and various news bulletins of LIC.
(4) Annual reports of IRDA