

# A Comparative Study of the procedures of public & private sector in life insurance companies

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## LIFE INSURANCE : MEANING

The insurance functions of life insurance companies deal with human life values. The risk in life insurance is measured in terms of monetary value of the life. Man, within himself, represents great worth that creates all utility in tangible property. After nature, everything we have in this universe springs from man. Life value, therefore, is the basic value. There is so much financial value on the human life. Ideas and energy make money in our life and both come from man himself. Man is endowed with highly intellectual ability and he makes untiring efforts for the betterment and advancement of his life, which gives him the highest happiness and comfort, also benefiting in that process all those who depend on him for economic security. Insurance is an effective device which promotes stability, prosperity and happiness to the individual and society at large. World over, it is used for promoting industries, business, commerce and developmental programs, particularly in developing countries like India indirectly, the insured community contributes for a noble cause – nation building activity. It can, therefore, be said that insurance is a multi-faceted tool in the hands of making for number of purposes. The people of the developed countries like the US, UK, Japan, India have long back accepted the concept of insurance wholeheartedly. 90% to 95% of insurable people of these countries are insured (in India it is not more than 60% to 65% even on a liberal estimation). About 15% to 20% of the GDP of these developed countries comes from insurance premium (in India it is a little over 7.3%). Insurance as a business activity is a driver of economic development. Insurance is an affective device which promotes stability, prosperity and happiness to the individual and the society at large. Development and insurance are also complementary to each other. Prudent men will realize the importance of insurance and will accept it as an integral part of the way of financial planning in life.

## HISTORY

The business of insurance is related to the protection of the economic values of assets. Every asset has a value. In the context of life insurance, a human being is an income generating asset. The value of this asset can be measured by considering the income that is generated by the person concerned. Insurance has been known to exist in some form or other since 3000 BC. The advent of life insurance business in India with the establishment of the Oriental Life insurance Company in Calcutta.

IN 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. In 1870, the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert List Assurance, Royal Insurance, Liverpool and London Globe insurance and the Indian offices were up for hard competition from the foreign companies, in 1914, the Government of India started publishing returns of insurance Companies in India. The Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business, In 1928, the Indian insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the insurance public, the earlier legislation was consolidated and amended by the insurance Act, 1938 with comprehensive provision for effective control over the activities on insurers.

The insurance Amendment Act of 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. An Ordinance was issued on 19<sup>th</sup> January, 1956 nationalize insurance business. An ordinance was issued on 19<sup>th</sup> January, 1956 nationalizing the Life insurance sector and life insurance Corporation came into

existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies-245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s then the insurance sector was reopened to the private sectors. The year 1999 saw a revolution in the Indian insurance sector, as major structural changes took place with the ending of government monopoly and the passage the insurance Regulatory and Development Authority (IRDA) since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies.

### **STATEMENT OF THE PROBLEM**

The Life insurance market in India was an under developed market that was inly tapped by the state owned LIC till the entry of private insurers. Insurance industry as in 1.4.2000 comprised mainly e-insurers – Life insurance Corporation of India and General insurers, the general insurance Corporation of India. Insurance is generally considered as a tax-saving device instead of its other implied long term financial benefits, Indian people are prone to investing in properties and gold followed by bank deposits. They selectively invest in share also, but the percentage is very small. Even to this day, Life insurance Corporation of India dominates Indian insurance sector. Insurance penetration in India continues to be one of the lowest at 3.69%, according to the annual report by IRDAI. “Insurance penetration in India was at less than 1% when the industry opened up for private companies in FY 2000-01. The state owned LIC sold insurance as a tax instrument, not as a product giving protection. Most customers were under insured with no flexibility or transparency in the products. With the entry of the private insurers the rules of the game have changed. Private sector players backed by foreign expertise have made the Indian insurance market more vibrant. The growing p[popularity of the private insurers shows in other ways. Twenty four private Life insurance Companies have been registered since the year 2018 till now.

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 According to government sources, the insurance and banking services’ contribution to the country’s gross domestic product (GDP) is 7% out of which the gross premium collection forms a significant part. The funds available with the state owned life insurance corporation (LIC) for investments are 8% of GDP.

This study is an endeavour to analyse the tremendous impact made by private sectors insurance companies in achieving this phenomenal growth in the life insurance sector. The intention of this study is to inform various insurers regarding the range and complexity of insurance awareness issues. The report will equip insurance companies with a ready reference to the fundamental aspects of business. The aim of this study is to reach those with limited knowledge of insurance and to provide a comprehensive picture of the awareness scenario across the country. This study mainly attempts to compare the performance of the top six private sector life insurance companies and evaluate their profitability and efficiency in the marketing of financial services in the country; it also attempts to compare the training methods practiced by Public Sector Life Insurance Corporation and ten of the top private companies. An evaluation on effectiveness of training programmes is done to analyse the costs and benefits of training in insurance companies.

Finally this study attempts to study the shift in customer perception towards private life insurance companies. It also pin points the various causes for failure on the part of public sector insurance companies to sufficiently penetrate the market for insurance in India.

### **NEED FOR THE STUDY**

A human being is an income generating asset. One’s income generating ability depends on one’s skills, (manual, professional, problem solving, entrepreneurial, etc.) These are the assets the value of which can be measured by considering the income that is generated by the person concerned. The concept of human life values provided by insurance enables the determination of the asset value of the human life and therefore, the amount of life insurance required, Life insurance emphasizes the preservation of the economic value of the human asset in the event that these assets may be lost through unexpectedly early death or through sickness and disabilities caused by accidents.

Insurance as a social security tool – The United Nations Declaration Of Human Rights 1948 provided that “Everyone has a right to a standard of living adequate for the health and wellbeing of himself and his family, including food, clothing, housing and medical care and necessary social services and the right to security in the event of unemployment, sickness, disability, widowhood or other lack of livelihood in circumstances bayou his control”. When the bread winner dies, to that extent, the family’s income dies.

The economic condition of the family is affected, unless other arrangements come into being to restore the situation. Life insurance provides such an alternate arrangement. Under a socialist system, the responsibility of full security would be placed upon the State to find resources for providing social security. In the capitalistic society, provisions of security are largely left to the individuals. The society finds a place in our Constitution. As per the law and the directions of the regulatory authorities, insurance companies in India are obliged to extend insurance benefits to economically weaker sections of the society in the unorganized sector.

### **OBJECTIVES OF THE STUDY**

- To examine the Indian insurance market and make a comparative study of the operations and claim settlement procedures of Public Sector and Private Sector Life insurance Companies.
- To assess the performance of Public sector a Private Sector Life insurance Companies.
- To examine the role of IRDI as the sole regulatory body for all insurance companies in India and study the changes in the regulation in insurance sector since 2018.
- To evaluate the various customer Relationship Management programmes and Marketing strategies adopted by Public Sector and private Sector Life insurance companies.
- To have an in depth understanding of the problems faced by public sectors and private sector Life insurance companies and suggest suitable remedies.

### **SCOPE OF THE STUDY**

This research aims at a making an in depth study of Life insurance Companies only, both in the Public sectors and private sector. It deals with products offered by life insurance companies consisting of Endowment Assurance (Participating), and Money Back (Participating) and Unit Linked insurance Policies. An elaborate study is undertaken covering a period of ten years since the inception segment. The survey was conducted on customers of the public sector life insurance corporation of India and ten top private sector companies started between the year 2000 and 2018. An analysis of performance was done by evaluating the performance of top six private sector as like HDFC Standard life insurance Co. Ltd, ICICI Prudential Life insurance Co. Ltd., SBI Life insurance CO. Ltd., Reliance Life insurance Company Limited. Bajaj Allianz Life insurance Company Limited. Max New York Life insurance Co. Ltd. life insurance companies with life insurance Corporation on India

A survey of insurance clients and also people who have no insurance coverage was made covering the major cities in Rajasthan reference.

### **METHODOLOGY**

- This study is based on both primary secondary data. Data required for the survey was collected from various publications, articles, journals, related texts and the IRDA website
- The performance analysis of private sector and public sector was done by obtaining secondary data collected from various books, journals, IRDA reports and websites. An analysis of financial statements of LIC and six top private insurance companies was done and their performance was evaluated. An in depth analysis was made on all the investment plans offered by public sector and private sector insurance companies.

### **CHOICE OF STUDY AREA**

This study was conducted in major cities of India including Ajmer, Jaipur, Jodhpur in Rajasthan state. This study was based on choice of insurance companies and thus the population included the whole of life insurance policy holders in the country. The above cities constituted a fair representation of the national population of the insured. Hence the study was conducted in the above mentioned cities.

## SAMPLING PROCEDURE

This study consists of three surveys conducted on policy holders of life insurance Corporation and ten top private insurance Companies. Ajmer is the most beautiful city proportionate convenient random sampling method was adopted. The first phase of the study was conducted on a sample of 40 respondents who were all policy holders and non-policy holders at random. The second part of the study was conducted among 78 employees and agents of public sector LIC and private sector life insurance companies. The third phase of the survey was conducted on 722 policy holders of both public sector and private sector life insurance companies. The top ten private insurance companies were selected on the basis of the number of year off existence in the Indian insurance segment and the maximum amount of business generated by them during the years 2013 to 2018.

## HYPOTHESES TESTING

- The one and only public sector insurance company, viz, the life insurance Corporation of India(LIC) has been ineffective in mention insurance needs of the huge Indian population. The vast majority of Indian population is still unaware of the need of financial security offered by life insurance.
- The introduction of private insurance companies have brought in a vibrant competition in the insurance segment, so as to enhance customers satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.
- The performance of private companies have paved the way for a future when private companies show a higher profitability than public sector like LIC.

**Table:- Summary of Financial Statements**

Sl.No	Particular	2017-18	2016-17	2015-16	2014-15	2013-14
	<b>POLICYHOLDERS' A/C</b>					
1	Gross Premium Income	31822320.56	30048735.98	26644420.56	23966765.14	23694230.07
2	Net Premium Income	31785098.87	30019668.40	26622538.36	23948277.17	23679807.36
3	Income from investments (Net)	20495899.68	19182291.42	15699685.80	16778605.66	14296712.03
4	Other Income	80112.77	60699.70	96444.04	27752.76	27724.64
6	<b>Total Income</b>	<b>53361111.32</b>	<b>49262659.52</b>	<b>42418668.20</b>	<b>40754635.59</b>	<b>38004244.03</b>
7	Commissions	1822681.87	1659006.66	1547716.58	1509209.66	1668129.14
8	Brokerage	0.00	0.00	0.00	0.00	0.00
9	Operating Expenses related insurance business	3014239.54	2894465.65	2269276.57	2239269.56	2376589.50
10	Provision For Taxation And Others	1401518.94	1109005.55	664411.33	506303.98	451990.71
11	<b>Total Expenses</b>	<b>6238440.35</b>	<b>562477.86</b>	<b>4481404.48</b>	<b>4254783.20</b>	<b>4496709.35</b>
12	Payment To Policyholders	19811983.14	16762427.46	14344516.89	14602550.23	15951923.61
13	Increase in actuarial liability	26068505.57	26617720.84	23343043.35	21716996.97	17392184.55
14	<b>Surplus/deficit from operations</b>	<b>242182.26</b>	<b>220033.36</b>	<b>249703.48</b>	<b>180305.19</b>	<b>163426.52</b>
	<b>SHAREHOLDERS' A/C</b>					
15	Total income under shareholders' account	245981.33	224855.96	252886.42	183558.78	166822.38
16	Profit/(loss) before tax	245941.56	224836.27	252886.30	183445.90	166822.38
17	Provisions for tax	1301.02	1662.19	1101.51	1067.53	1154.25
18	<b>Profit/Loss alter tax</b>	<b>244640.54</b>	<b>223174.08</b>	<b>251784.79</b>	<b>182378.37</b>	<b>165668.13</b>
	Profit/Loss carried to balance sheet					

**TOOLS USED FOR ANALYSIS****Table:Trend Analysis**

Year	PAT (x)	%	Increase/ decrease
2013-14	165668.13	100	--
2014-15	182378.37	110.08	+10.08
2015-16	251784.79	151.98	+41.90
2016-17	223174.08	134.71	-17.27
2017-18	224640.54	135.59	+00.88
<b>N=5</b>	<b><math>\sum x = 1047645.31</math></b>		

$$\text{Arithmetic mean} = 1047645.31/5 = 209529.182$$

**FINIDINGS**

The findings that can be frown from the survey conducted by us can be summarized in the way bank deposits are the most preferred investment alternative which is available to people followed by alternatives such as insurance, real Estate, Gold and Silver, Mutual etc.

The scheme mostly preferred by insurance holders was life protection schemes like death benefits followed by money growth plans like wealth creation and high retune plans. It was found that nearly 50% of the respondents usually save less than 15% and kind of investment mostly preferred by the respondent's ever both long and short term. According to the survey safety is the most important criterion which is excepted among all the respondents towards their investment alternatives followed by return, Brand Name, Tax Benefits, Liquidity and Capital Growth. According to the study company image is to be the highly important criteria, which we consider before taking up a life insurance this is mainly because people expect safety and security for their money which they invest, followed by the factor Premium which we pay to the insurer and then Bonus and Interest paid by the company, services etc.

**SUGGESTIONS**

- To increase the level of insurance penetration LIC may focus on bringing products that suit to the rural and urban customers.
- The company if possible should invest in advertising, conduct road shows and spend money on holdings, so that it can better propagate awareness about its various lesser known products.
- LIC should also tie up with several other banks apart from the existing ones to sell its products i.e. through bank assurance
- The company has the option of tying up with local NGO'S for selling its rural insurance products.
- LIC should keep a check that its agents equally promote all its products.

**LIMITATIONS OF THE STUDY**

- This study is restricted to the urban population only.
- Insurance Companies, both private and public were unwilling to disclose any information apart from those available on the websites. It was very difficult to get information regarding details of policies and financial statement of public sector LIC before the year 2018.
- Due to high migration of employs of private sector Life insurance Companies from one company to the other they are reluctant to divulge details of company's policies and programmes.
- Though an attempt was made to study the performance of top ten private sector life insurance companies, it was possible to get the financial information relating to top six only since the remaining were insignificant as they were of recent origin.

## **Conclusion:**

The insurance functions of life insurance companies deal with human life values. The risk in life insurance is measured in terms of monetary value of the life. Man, within himself, represents great worth that creates all utility in tangible property. Prudent men will realize the importance of insurance and will accept it as an integral part of the way of financial planning in life.

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## **Reference :-**

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