



Life Insurance Industry *An Overview*

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Historical Perspective –

- Entry of Life Insurance in India in 1818 – Oriental Life Insurance was the first Life Insurance Company to start its operations in Calcutta.
- 1823 – 1900 Several foreign Insurance companies were established & enjoyed near monopoly in insurance business upto 1900 or so.
- 6 Swadeshi (National) Companies appeared in Insurance Sector in the early years of 20th Century.



- The Indian Life Insurance Companies Act 1912 was the first statutory measure to regulate Life Insurance business.
- Insurance Act, 1938 is the first comprehensive legislation for detailed and effective control over the activities of insurers – earlier legislation was consolidated and provisions to protect the interest of policyholders made.



Post-nationalisation in 1956

- On the 19th January 1956 the management of insurers and provident societies totalling 245, was taken over by the Central Government and then nationalised on 1.9.1956
- LIC was formed in September 1956 by an Act of Parliament viz. LIC Act, 1956 with capital contribution of Rs. 5 crore from the Government of India



The growth of life insurance business under the monopolistic control of LIC during the period 1956 to 2000 has been very impressive

Growth of New Business in India – Individual Insurance

Year	No. of Policies (in Cr)	S.A. (In Million)	First Year Premium
1957	1.0	3293	131
190-71	1.6	12156	480
1980-81	2.0	28827	1422
1990-91	8.7	281391	11990
2000-01	19.66	12495063	886335



- The Malhotra Committee on Insurance Sector Reforms
- The committee identified the factors influencing slow growth :
 - low insurance awareness;
 - customer's needs not generally addressed while marketing
 - inadequate response to customers needs in servicing



- With the passing of the IRDA Act, private sector entry was allowed both in Life and General business.
- IRDA promulgated various regulations.
 - registration of Indian Insurance Companies
 - Obligations of insurers to rural or social sectors
 - insurance advertisements and disclosure



- licensing of insurance agents
- General insurance – Reinsurance
- Assets, Liabilities and Solvency Margin of Insurers
- Investment
- Life Insurance Reinsurance
- Protection of Policyholders interest
- Corporate Agents
- Insurance Brokers



Impact of Opening of the Market

- 
- **Market size has increased**
 - **No. of players – In Life & General**
 - **JV's are good and strong**
 - **Increased awareness of Insurance**
 - **Products innovation**
 - **Aggressive marketing and new approaches**
 - **Efficient handling by field staff, ground level people and executives**
 - **Advance technology adoption Technical excellence**

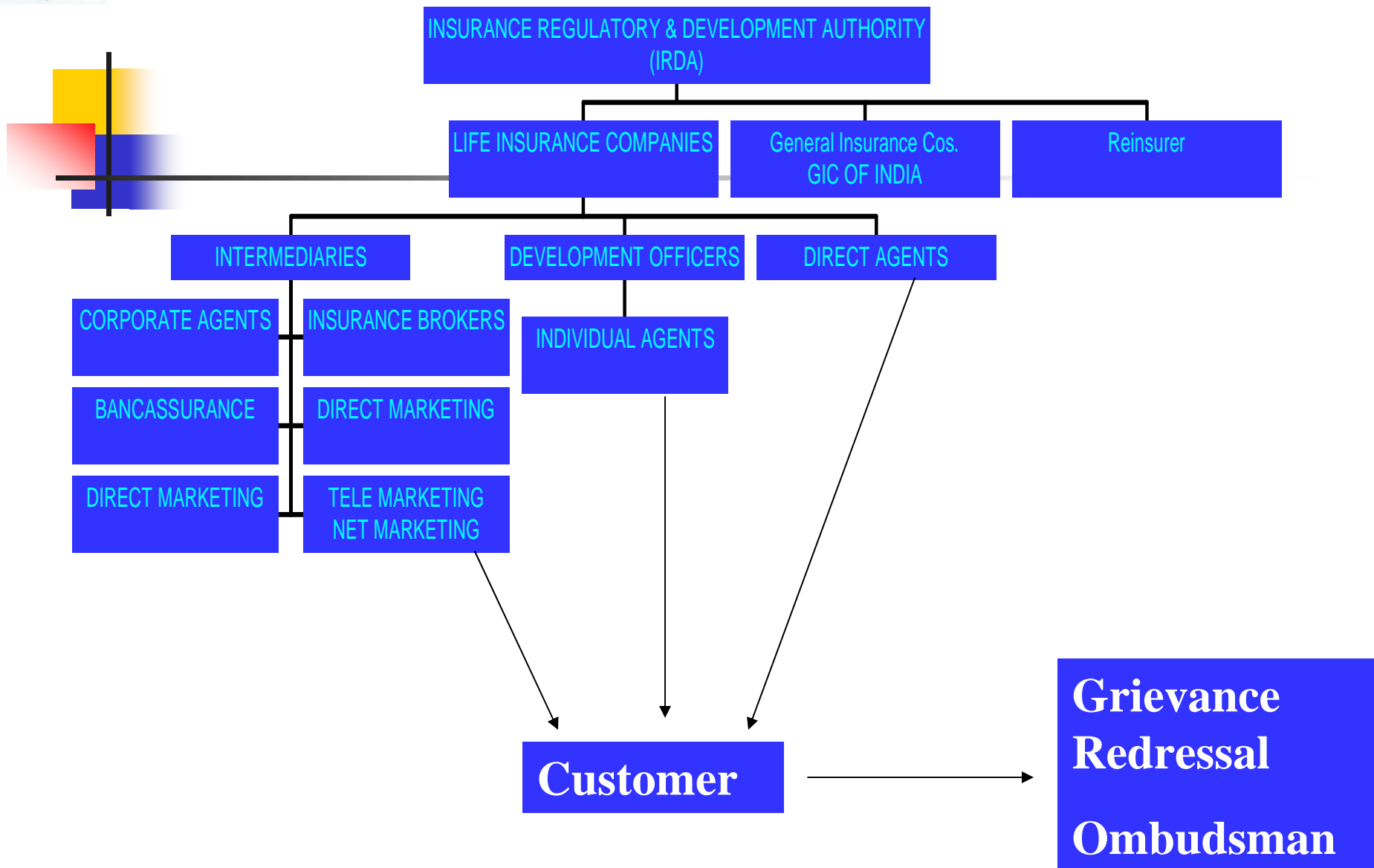


Insurance scenario in India

- Population: 1.05 Billion**
- Savings Rate: Around 26% of GDP**
- Estimated middle class population: 300 Million**
- Insured population: 110 million only**
- The annual growth in the average insurance premium in India has been 8.2 per cent compared with the global average of 3-4 per cent.**
- Insurance density in the country, based on per capita premium, was \$5 in the life insurance segment and \$2 in the general segment. Compared with the Indian life insurance standard, insurance density is \$3,236 in Japan, \$1,079 in the US, \$18 in Brazil and \$14 in Mexico.**
- The share of life insurance premium to GDP is 1.29 per cent in India,**

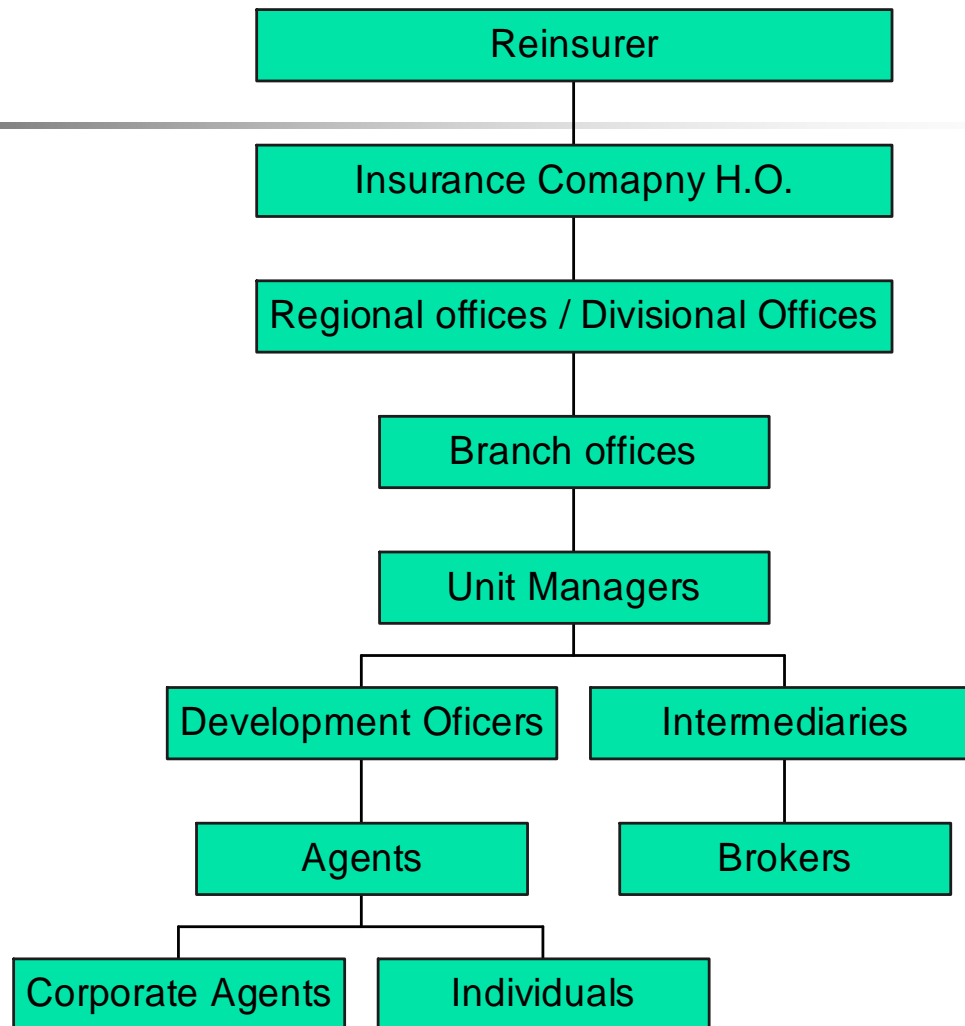


INSURANCE MARKET PLACE





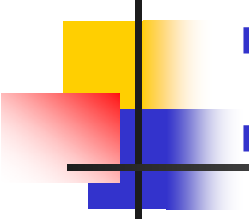
Life Insurance Office Management





Core Departments :

Marketing

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- Finalising plans of development of new business
 - Guide and coordinate the preparation of performance budgets
 - Opening new offices, recruitment of marketing officials, training, preparation of training materials
 - Research work
 - Organising product launch, training field force
 - Sales competitions, marketing conventions, conferences
 - Norms of performance, compensation package
 - Methods of selection, training and motivation of agents and other intermediaries
 - Publicity and corporate communication



■ **Actuarial**

- **Scientific basis for the operations of insurance**
- **Product Designing, development and pricing**
- **Formulating the policy conditions, updating them as also the premium rates**
- **New plans of insurance – working closely with Marketing Department**
- **Valuing the assets and liabilities – deciding the basis of valuation, obtaining data, working out the net surplus**
- **Arranging reinsurance of very large sum assured cases and for very specially sub standard cases, reinsurance treaty – exchange of data with reinsurer**

Underwriting

- **Methods and standards for underwriting of lives – calls for a great deal of research and analysis of international practices**
- **Underwriting of large sum assured proposals; underwriting of sub-standard lives Premium determination and benefit specification, study of mortality, interest and expenses – analysis of the experience – collection of data**



Investment Department

- **Accumulation of large funds**
- **Long term nature of insurance contracts**
- **~~Safety / maximisation of yield~~**
- **Investment policy to be within the framework of statutory requirements**
- **Conducting research into different areas relevant to investments, study of market trends, analysis of performance of various companies, industries and management groups and projection of profitability in future**
- **Maintaining records relating to investments and keeping ledgers for different investments – required for follow-up of dividends, interest payments, rights and bonus issues and redemption etc.**



Finance And Accounts

- **Accounting procedures, procedures and forms are standardised**
- **Scrutiny, co-ordination and consolidation of periodical accounting returns**
- **Annual statutory accounting returns; report giving an account of its activities incorporating annual financial statements like Balance Sheets and Revenue Account duly audited**
- **Drawing up of the annual budget – allocation to different offices**
- **Budgetary control**
- **Taxation matters – tax returns, paying advance taxes etc.**
- **Saving as an intermediary between operating offices and investment department – close watch on surplus funds**



Separate wing coordinating selling and servicing of P&GS products

- Performs all functions that Marketing Department does for conventional business



Vigilance Department

- Complaints from the public
- Cases from Audit Departments Report
- Liaison with CVC of the Government of India



Distribution Channels in Life Insurance

Life insurance is always sold and seldom bought

Tied Agency force nearly 11 lakh agents with LIC

Constraints in terms of area, reach, resources which inhibit growth of business

- A multiple distribution channels supplementary to existing channel**
 - Bancassurance**
 - Corporate Agents**
 - Brokers**
 - Direct Marketing**
 - Net Marketing**
 - Telemarketing etc.**



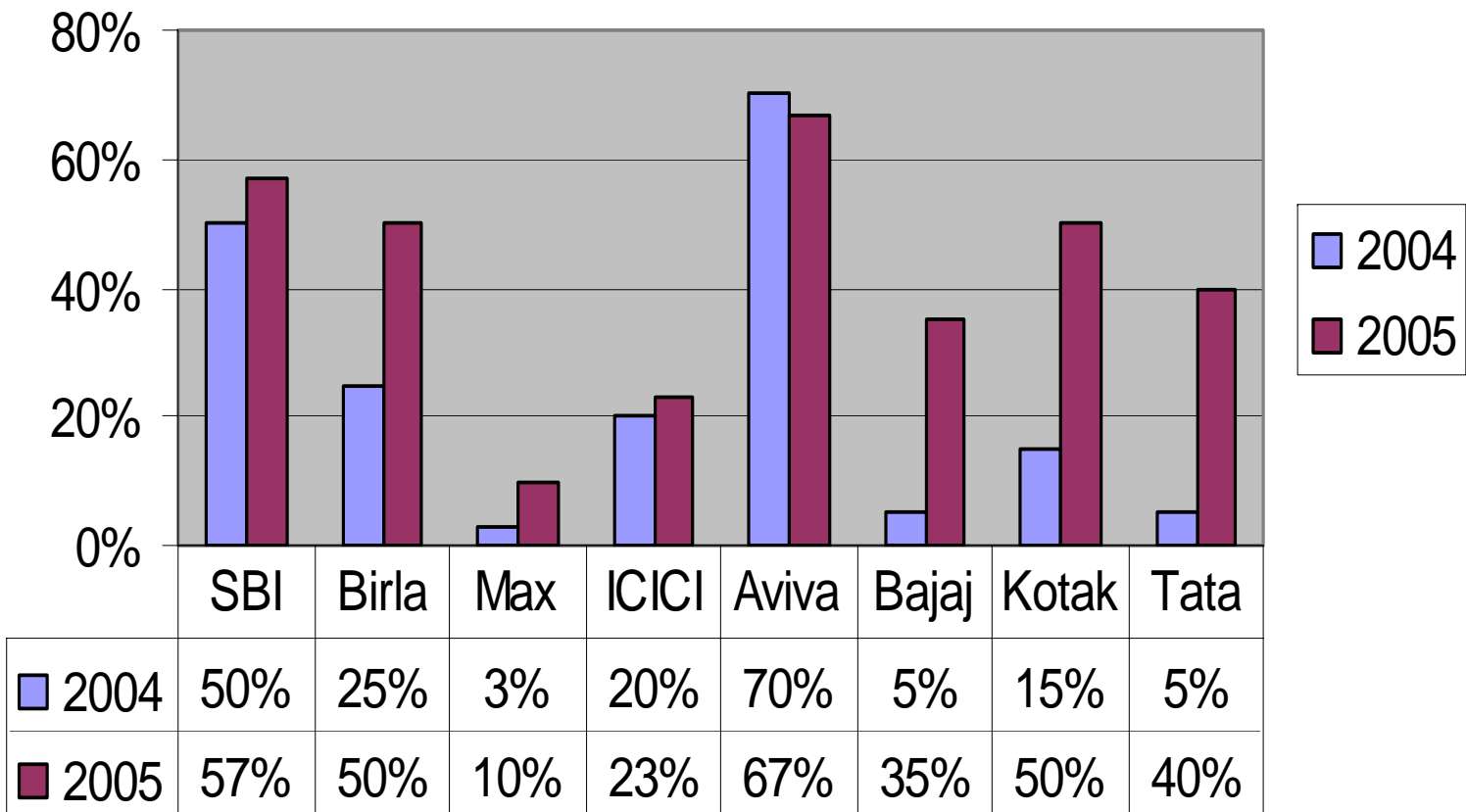
- **Bancassurance**

- **Process of selling insurance products through Banks : Corporate Agency model through the Bank becomes the Corporate Agent of a Life Insurance Company and markets the products through its branches**
- **Joint venture where the Bank has to undertake both distribution of insurance products and risk management**
- **The referral model where the bank shares the data of their customers with the insurance company and the sales persons of the insurance company market the products**
- **Banks have a huge customer base – can leverage the relationship**
- **Banks can increase their fee-based income**



Share of Premium Through Bancassurance In Various Companies

Percentage of premium through Bancassurance in FY 2005-06





- Corporate Agents

- Companies

- Firms

- NBFCs

- Co-operative Societies

- Panchayats



■ **Brokers:**

- **Vital link between insured and insurer – Middlemen in bargains – bring buyers and sellers together while assisting in negotiation for concluding a business contract**
- **Professionals in the area of insurance**
- **To operate on behalf of customers**
- **Providing quality advice on products and insurance company**
- **IRDA Brokers Regulations**
- **Stringent capital norms for protecting the interest of the customers**



Broker Organisation

- Individual / sole proprietorship concern
- Partnership / firm
- Company
 - Private
 - Public
 - Multinational



Direct Selling

- Mailers
 - High cost to reach target customers
 - Database is used by many competitors, leading to low response.
- Telemarketing
 - A cost effective tool, if the caller can close the sale
 - For this channel, simple products should be specifically introduced.



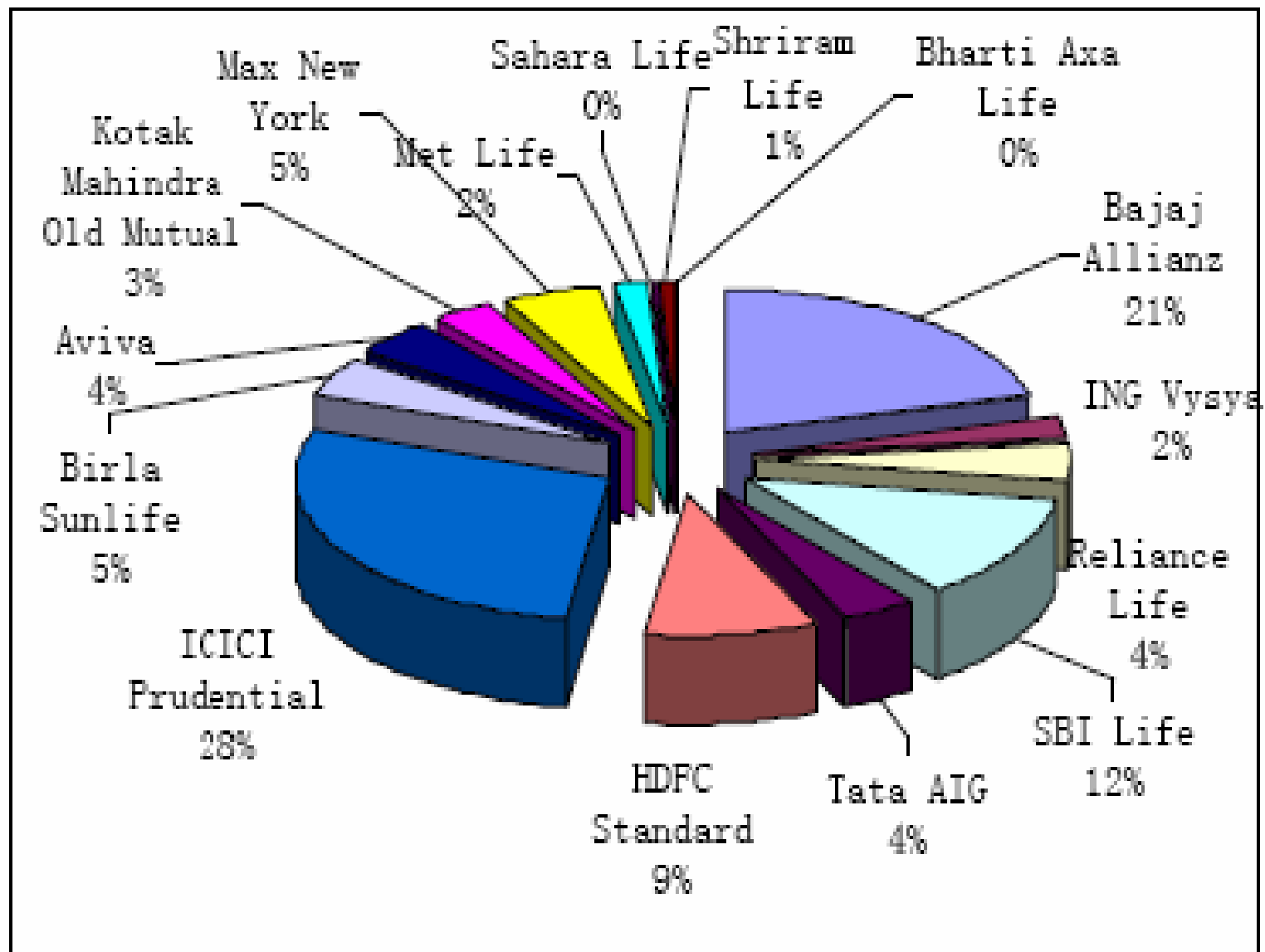
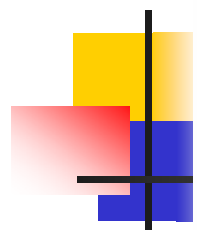
Key Market Indicators

- Size of Market, Life and Non Life \$ 10 billion
- Total global insurance premium \$ 2500 billion

	Type of business	Public sector	Private sector	Number of registered companies
1	Life Insurance	01	15	16
2	General Insurance	05	10	15
3	Reinsurance	01	00	01
	Total	07	25	32



MARKET SHARE OF PRIVATE LIFE INSURANCE COMPANIES IN FEB 2007



Source: IRDA



Company Name	Premium Rs in crore	Rank	*Total Policies	Rank	Avg.Prem / policy (APPP)	Rank
LIC	55934.7	1	3.8E+07	1	14631	14
ICICI Pru	5254.64	2	1960034	3	26808	5
Bajaj Allianz	4269.78	3	2079217	2	20536	9
SBI Life	2566.08	4	565701	4	45361	1
HDFC Standard Life	1624.24	5	525147	6	31047	3
Reliance Life	930.46	6	450917	7	20634	8
Max New York	920.34	7	552670	5	16652	13
Birla Sun Life	882.72	8	426746	8	20684	7
Aviva Life	724.03	9	297555	10	24332	6
Tata AIG Life	642.35	10	408797	9	15713	12
Kotak Mahindra	614.94	11	165203	12	37223	2
ING Vysya	467.44	12	229233	11	20391	10
MetLife India	344.09	13	119610	13	28768	4
Shriram Life	179.78	14	96078	14	18711	11
Sahara Life	43.17	15	41663	15	10361	16
Bharti Axa	7.77	16	5703	16	13624	15

*Total policies includes: Individual Single Premium (ISP), Individual Non Single Premium (INSP) Group Single Premium (GSP) and Group Non Single Premium (GNSP).



Classification of Insurance Business

- Life Insurance
 - Traditional Life
 - Unit Linked Plans
 - Annuity Plans
- General Insurance
 - Fire
 - Marine
 - Miscellaneous :Aviation, Engineering, Liability, Motor, Personal Accident, Agricultural, others
- Reinsurance



Life Insurance Products

Risk Oriented Plans	Risk + Investment Oriented Plans	Investment Oriented Plans
Pure Term Assurance Plan	Endowment Assurance Plan	Bima Nivesh
Pure Term Assurance Premium back Scheme	Double Endowment Assurance Plan	Single Premium Endowment Assurance Plan
Double Cover & Triple Cover Plans	Money Back Scheme	Unit Linked Plan



Life Insurance

■ BASIC INSURANCE PLANS

■ 'Term Insurance'

'Pure Endowment'

Death

Survival

Endowment Assurance - Survival + Death

With Periodical
Liquidity

Stretched Up to
death of insured

Money Back Plan

Whole Life Plan



Unit Linked Insurance Plan

- 
- **Capital market linked insurance plan**
 - **Premium consists of two parts**
 - **Risk premium**
 - **Investment premium**
 - **Secured fund (complete security)**
 - **Balanced fund (moderate risk)**
 - **Risk fund (high risk instruments)**
 - **Switch over from one fund to another twice – minimum gap of 2 years**
 - **Investment Risk borne by insured**
 - **Commission / Fees charged by insurer varies**



Company name/Product Name		LIC	ICICI/Life Time II
Risk Coverage		In case of death after 1 yr SA+ fund value, < 1yr certain proportion of SA+fund value will be paid	Higher of SA or fund value
Front Load charges(of premium)	top up	1.50%	1%
	1st yr	Flat charges will be levied	19%
	2nd yr		4%(upto 5th year)
	3rd yr		2%(upto 10th year)
	b		after 10th yr 1%
Administrative charges			60/- per month
Investment charges(as % of investment value)		1% on weekly basis	0.75% to 1.5% depending on fund type
Switch over costs	No.of free switch overs	NIL	4
	cost per each extra switch over	2% of bid value and switchover max is twice in term of policy	100/-
Surrender costs	1st yr	0.1	75%
	2nd yr	0.06	60%
	3rd yr	4.5	40%
	3+	4th yr -- 4%, thereafter NIL	zero
Mortality charges per thousand SA	25 yrs	1.154	
	30	1.5	1.44
	40	3.595	2.39
	50	9.39	5.59



Life Insurance Policy Riders

- Riders are the additional benefits that you may buy and add to your policy.
- They are options that allow you to enhance your insurance cover, qualitatively and quantitatively.
- Riders can be mixed and matched based on one's preferences for a small additional cost

Following are some of the riders

- Waiver of premium
- Accidental death and disability
- Guaranteed purchase option



Age 35	Return to death	Return to survival	Avg. ROR	SV	IRR of Survival
Bima Sandesh	0.1275	0.0000	0.1275	0.0156	0.0000
Whole Life	0.1127	0.0019	0.1146	0.0085	0.0486
Double					
Endowment	0.0540	0.0646	0.1186	0.0027	0.0672
Endowment W/o profits	0.0416	0.0418	0.0834	0.0015	0.0434
Money Back	0.0375	0.0623	0.0998	0.0010	0.0670
Endowment With Profits	0.0314	0.0717	0.1031	0.0008	0.0746
Ltd.Payment Endowment (10)	0.0240	0.0703	0.0943	0.0004	0.0731
Jeevan Surabhi	0.0228	0.0530	0.0758	0.0004	0.0551
Jeevan Sanchay	0.0220	0.0572	0.0793	0.0005	0.0572
Ltd. Pay J. Shree(6)	0.0197	0.0947	0.1144	0.0002	0.0985
Ltd.Payment Endowment (5)	0.0139	0.0688	0.0827	0.0001	0.0716
Ltd. Payment J. Shree (Single)	0.0056	0.0864	0.0920	0.000005	0.0899
Endowment Single Premium	0.0045	0.0678	0.0722	0.000003	0.0705
Bima Nivesh	0.0025	0.0965	0.0990	0.000018	0.0988



Annuities and Pensions

“A Life Annuity is defined as a contract whereby for a cash consideration, one party (the insurer) agrees to pay the other (the annuitant) a stipulated sum (the annuity) periodically throughout life, the understanding being that the principal sum standing to the credit of the annuitant shall be considered liquidated immediately upon the death of the recipient of the annuity payments”

- **Immediate annuity**
- **Deferred annuity**



Various Options to Annuitant :

- Pension for life
 - Pension guaranteed for 5, 10 or 15 years and then for life
 - Pension reducing to 50% to the spouse on the death of the life assured
 - Pension for life with return of purchase price



Annuitant's Mortality

1.5 times

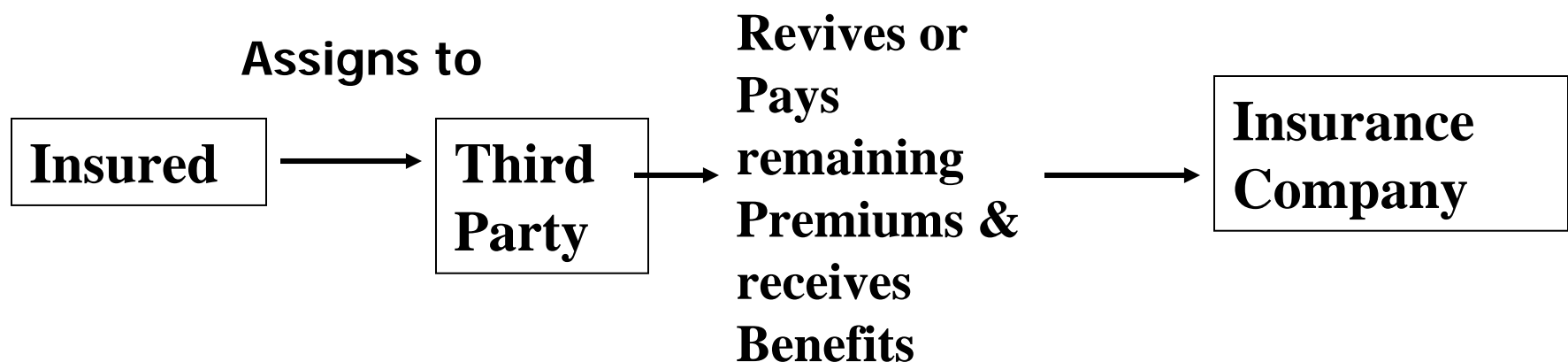
2 times

ANNUITIES	Average Rate of Return	Semi- variance	Average Rate of Return	Semi- variance	Average Rate of Return	Semi- variance
IMM. ANNU W/O ROPP	0.0906	0.0090	0.0772	0.0128	0.0601	0.0159
ANNUITY FOR LIFE	0.1010	0.0057	0.0871	0.0077	0.0694	0.0092
ANN. LIFE RTN. PP	0.1048	0.0001	0.1035	0.0001	0.0983	0.0001
ANN.LIFE RTN. P.P.	0.1057	0.0004	0.0842	0.0085	0.0662	0.0101
IMMEDIATE LIFE ANNUITY	0.1060	0.0145	0.0903	0.0001	0.0701	0.0259
ANN. CERTAIN (5 YRS.)	0.1070	0.0019	0.0967	0.0017	0.0825	0.0018
ANN. CERTAIN (10 YRS.)	0.1135	0.0006	0.1033	0.0006	0.0923	0.0005
INCREASING ANNUITY	0.1151	0.0095	0.0936	0.0131	0.0831	0.0168
ANN. CERTAIN (15 YRS.)	0.1155	0.0004	0.1060	0.0004	0.0969	0.0004
ANNUITY WITH LC	0.1170	0.0229	0.0946	0.0321	0.0666	0.0392
IMM.ANNUITY ROPP	0.1256	0.0001	0.1241	0.0001	0.1180	0.0002
ENDOWMENT WITH L.C.	0.1292	0.0007	0.1348	0.0010	0.1407	0.0014



Viaticals & Secondary Markets In Life Insurance

- **Thriving since 1980's**
- **Emergence of AIDS created Viaticals**
- **After 3 premiums policy attains surrender value**
- **Lapsed Policies can be revived by paying penalty**





Example 1:

Plan & Term: 88/20 Sum Assured (SA): Rs.50000/-

Date of commencement: 28/03/1990

Date of purchase: 2002 Premium: Rs.2585 p.a.

First unpaid premium: 28/03/2003 Surrender value: Rs.41181/-

Future premiums: $2585 \times 7 \text{ yrs.} = \text{Rs.}18095/-$

Surrender value = Fraction of Paid up value

Paid up value = $\frac{\text{sum assured} \times \text{number of years Paid}}{\text{Total number of years}}$

Therefore Third party pays Rs. 41181 to policy holder & future premiums Rs. 18095 for remaining years to the insurer

$\text{Rs.}59276 = \text{Rs } 41181 + \text{Rs.}18095$.

Third Party Receives = SA + vested bonus + Loyalty & final additional bonus.

$\text{Rs.}116700 = \text{Rs.}50000 + \text{Rs.}45200 + \text{Rs.}17500 + \text{Rs.}4000$

IRR = 10.19% per annum.pre tax



Example 2:

Commencement-22/10/1991

Date of purchase-2005

Premium –Rs.6443/-

First unpaid premium-22/10/2001

Surrender Value- Rs.55513/- Revival amount-Rs.14413/-

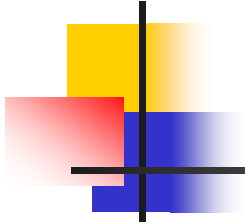
Future premium- $6443 \times 5 = \text{Rs.}32215/-$

**The firm has to pay = SV + revival amount + future premiums
= Rs.108584**

**Total receipts for this policy = Money back installment +
Remaining sum assured + Vested bonus + Loyalty Addition +
Final additional bonus =Rs.1, 56,300**

Internal Rate of Return=11.35% pre tax

If death occurs IRR is still higher



THANK YOU

