Ensuring New India: New Vistas of Growth via MNC Collusion

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Abstract:
'Live poor and die rich' was perhaps the acerbic jingle of LIC in the bygone era of 70's when the people were cynical to invest some portion of their savings to protect lives and ensure safety of their families during any untoward accident. Gradually the clouds of uncertainty in the environment got upsurge and today risk and uncertainty have become way of life, more so since the beginning of 2010. There is neither escape to victory for any investor in particular nor any survivor in general. Global markets crashed one by one and Indian economy is suffering the tremors on a day-to-day basis. Financial markets have no clue on the 'disaster management' of unforeseen circumstantial colossal losses and bring out the investors from getting drowned of risky propositions. This paper attempts to unleash the opportunities that help measures to offset high risk portfolios and suggest good measures to sustain and respire for a new lease of life. Indisputably Insurance is one of the most dependable 'mantras to manage' such volatility around business operations as well as life-risk being insured. This instrument of insurance has gained more currency especially after the introduction of IRDA in 1999, that gave room to both domestic private participants to capture the market and also invited foreign players within the limits of 26% equity stake in collaborations. The insurance sector witnessed a sea change amongst the Indian middle class who got motivated to insure their lives and properties and enjoy the dual benefits.

Keywords: *Actuarial Science, Insurance, Invasion of MNCs, IRDA*

1. Insurance in India: An overview

The chronicles of life insurance in India dates back to 1818 during the British regime through a company called the Oriental Life Insurance Company, followed by the Bombay Assurance Company in 1823, and the Madras Equitable Life Insurance Society in 1829. The business of those companies was to insure the lives of Europeans living in India. The first ever company that began insuring Indians at a "fair value" was the Bombay Mutual Life Assurance Society starting in 1871. Subsequently, the first general insurance company (non-life), Triton Insurance Company Limited, was established in 1850. At least for a century only the wealthy people were provided with insurance by these companies on both life and non-life factors. The Bombay Mutual Life Insurance Society started its business in 1870. It was the first company to charge same premium for both Indian and non-Indian lives. The Oriental Assurance Company was established in 1880. The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Limited, the first general insurance company established in the year 1850 in Calcutta by the British. Till the end of nineteenth century insurance business was almost entirely in the hands of overseas companies.

The first Indian Insurance regulation formally launched in India with the passing of the Life Insurance Companies Act of 1912 and the provident fund Act of 1912. Several frauds during 20's and 30's desecrated insurance business in India. By 1938 there were 176 insurance companies. The first comprehensive legislation was introduced with the Insurance Act of 1938 that provided strict State Control over insurance business. The insurance business grew proportionately soon after independence. Indian companies gripped their hold on this business yet considered to be an urban prerogative.

Indeed, the LIC began operating with 5 Zonal offices, 33 divisional offices and 212 branches. It was started with an objective of spreading Life Insurance much more widely and in particular to rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at reasonable cost. In the post liberalized era, the insurance sector with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, overcoming the barriers of entry restrictions for private players allowed foreign players to compete in the open market. Under the current guidelines, there is a 26 percent equity cap for foreign partners of Indian insurance company. There is a proposal to increase this limit to 49 percent. The opening up of the sector is likely to lead to greater spread and deepening of insurance in India and this may also include restructuring and revitalizing of the public sector companies. In the private sector 12 life insurance and 8 general insurance companies have been registered. A host of private Insurance companies operating in both life and non-life segments have started selling their insurance policies since 2001.

2. Life insurance, pensions and healthcare- the limiting case of actuaries

The roots of insurance business lie with the 'actuarial science' mechanics. In fact, it is the actuaries who compute all insurable factors and specify the amounts as risk coverage. Through actuarial science, the application of mathematical and statistical models used to assess risk in the insurance and finance industries. Actuaries are professionals who are qualified in this field through demonstrating their competence by passing a series of rigorous professional examinations. Actuarial science includes a number of interrelating subjects, including probability, mathematics, statistics, finance, economics, financial economics, and computer programming. Historically, actuarial science used deterministic models in the construction of tables and premiums. The science has gone through revolutionary changes during the last 30 years due to the proliferation of high speed computers and the union of stochastic actuarial models with modern financial theory (Frees 1990). Previously actuaries focused on the analysis of mortality, the production of life tables, and the application of compound interest to produce life insurance, annuities and endowment policies. Contemporary insurance programmes have been extended to include credit and mortgage insurance, key man insurance for small businesses, long term care insurance and health savings accounts (Hsiao 2001). In the pension industry, actuarial methods are used to measure the costs of alternative strategies with regard to the design, maintenance or redesign of pension plans. The strategies are greatly influenced by collective bargaining; the employer's old, new and foreign competitors; the changing demographics of the workforce; changes in the internal revenue code; changes in the attitude of the internal revenue service regarding the calculation of surpluses; and equally importantly, both the short and long term financial and economic trends. It is common with mergers and acquisitions that several pension plans have to be combined or at least administered on an equitable basis. Benefit plans liabilities have to be properly valued, reflecting both earned benefits for past service, and the benefits for future service.

With largest number of life insurance policies in force in the world, Insurance happens to be a mega opportunity in India. It's a business growing at the rate of 15-20 per cent annually and presently is of the order of Rs 450 billion. Together with banking services, it adds about 7 per cent to the country's GDP. Gross premium collection is nearly 2 per cent of GDP and funds available with LIC for investments are 8 per cent of GDP.

Yet, nearly 80 per cent of Indian population is without life insurance cover while health insurance and non-life insurance continues to be below international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. This it is an indicator that growth potential for the insurance sector is immense.

A well-developed and evolved insurance sector is needed for economic development as it provides long term funds for infrastructure development and at the same time strengthens the risk taking ability. It is estimated that over the next ten years India would require investments of the order of one trillion US dollars. The Insurance sector, to some extent, can enable investments in infrastructure development to sustain economic growth of the country. In 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 shares also but the percentage is very small. With the entry of private sector players backed by foreign counterparts, Indian insurance market has become seemingly vibrant and yet to capture the major market share.

Some of the significant mile stones in the Insurance business of India are:

- 1818 - Oriental Insurance Company, the first Insurance Company on Indian soil
- 1870 - Bombay mutual Life assurance society, the first Indian Life insurance company started its business
- 1912 - Indian Insurance Companies Act, enacted as the first statute to regulate the Life Insurance business
- 1928 - Earlier legislations consolidated and amended by Insurance Act with objective of protecting the interest of insuring public.
- 1956 - 245 Indian & Foreign insurers and Provident societies were nationalised and Life Insurance Corporation was formed with a capital contribution of Rs 5 crore from Govt. of India

3. Growth of LIC: India and abroad

LIC achieved Rs 200 crore businesses in 1957 and crossed 1000 crores in Year 1969-70. It took another decade to touch the Rs. 2000 crore mark of new business. With reorientation towards the philosophy during 1985-86 LIC crossed Rs.7000 crore sum assured on new policies. Over its existence of around 50 years, LIC has created huge surplus and contributes around 7 % of India GDP in 2006. It has grown to 2048 offices serving around 180 million policies and a Corpus of Rs. 3.4 trillion. It operates in 12 other Countries, primarily to cater to the needs of Non Resident Indians. In 2006-07, number of policy holders has become 200 million plus mark.

4. Insurance in the Post Liberalization Era

The Life Insurance market in India is a promising market especially after the introduction of IRDA in 2000. After IRDA ACT 1999, the global insurance players entered the Indian insurance business through alliance with Indian Industry Corporate houses. As these joint ventures brought new technology and prospective avenues to insurance industry and offered innovative insurance plans like cashless hospitalisation facility etc., made the sector rev up. The penetration of life insurance products was just 19 percent of the total 400 million of the insurable population until late 1999. The state owned LIC sold insurance as a tax instrument, not as a financial protection mechanism. 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. The growing popularity of the private insurers shows in other ways. They are coining money in new niches that they have introduced. The state owned companies still dominate segments like endowments and money back policies. But in the annuity or pension products business, the private insurers have already wrested over 33% of the market. And in the popular unit-linked insurance schemes they have a virtual monopoly, with over 90 % of the customers. 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 (2004-05) is estimated at Rs. 450 billion (US$10 billion). 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. 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 of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. Though the focus of this market research report is on the potential growth on the Indian Insurance Sector, it also talks about the market size, market segmentation, and key developments in the market after 1999. The report gives an instant overview of the Indian non-life insurance market, and covers fire, marine, and other non-life insurance. The data is supplied in both graphical and tabular format for ease of interpretation and analysis. This report also provides company profiles of the major private insurance companies.

The total number of Insurance companies till date is: Life insurers (14) comprise of Public sector and Private Sector. LIC being the only public sector and the remaining all are from the private sector ones. Also Non-life insurers comprise of 14 of which 6 belong to public sector and 8 are from private sector. The names of those are thus:

Life Insurance Corporation of India (LIC), Allianz Bajaj Life Insurance Company Limited, Birla Sun Life Insurance Company Limited, HDFC Standard Life Insurance Company Limited, ICICI Prudential Life Insurance Company Limited, ING Vysya Life Insurance Company Limited, Max New York Life Insurance Company Limited, MetLife Insurance Company Limited, Om Kotak Mahindra Life Insurance Company Limited, SBI Life Insurance Company Limited, Tata AIG Life Insurance Company Limited, AMP Sanmar Assurance Company Limited, Aviva Life Insurance Company Pvt. Limited, Sahara India Life Insurance Company Limited. National Insurance Company Limited, New India Assurance Company Limited, Oriental Insurance Company Limited, United India Insurance Company Limited, Export Credit Guarantee Corporation, Agriculture Insurance Company of India Limited, Bajaj Allianz General Insurance Company Limited, ICICI Lombard General Insurance Company Limited, IFFCO-Tokyo General Insurance Company Limited, Reliance General Insurance Company Limited, Royal Sundaram Alliance Insurance Company Limited, Tata AIG General Insurance Company Limited, Cholamandalam General Insurance Company Limited, HDFC Chubb General Insurance Company Limited.

Table: 1. Growth of LIC between 1959 to 1999

Sr.	Particulars	1959	1999
1	ANNUAL BUSINESS Sum assured Policies First year premium	336.3 crores 800000 14 crores	75606 crores 14857000 4171crores
2	BUSINESS IN FORCE Sum assured Policies Renewal Premium	1477 crores 5686000 74 crores	459201 crores 9172600 16136 crores
3	GROUP BUSINESS IN FORCE Sum assured No. of Lives	5.29 crores	9558 crores 21671000
4	LIFE FUND	41040 crores	127389.06 crores

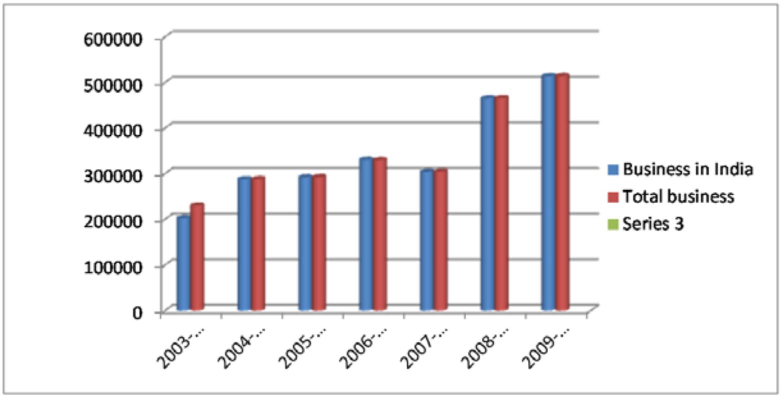
Table: 2. Business of LIC alone since beginning
Amount (Rs. Crores)

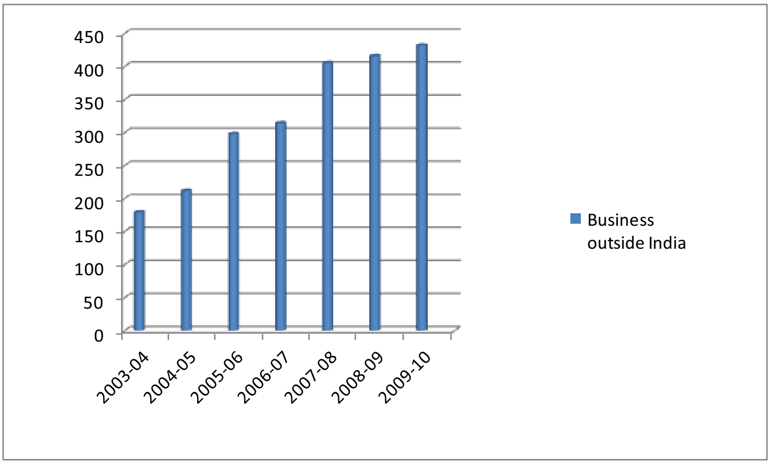
Year	Business within India	Business Outside India	Total Business
1957 -58	277.67	5.40	283.07
1965-66	734.72	11.24	745.96
1972-73	1025.80	10.28	1036.08
1976-77	2575.01	11.32	2586.33
1977-78	3100.70	11.73	3112.43
1978-79	5373.02	12.32	5385.34
1982-83	7998.16	11.22	8009.38
1983-84	8787.26	14.41	9801.67

1986-87	11917.20	18.30	11945.50
1987-88	13033.38	22.64	13056.02
1991-92	33473.96	45.74	33519.70
1992-93	43490.34	100.00	43590.34
2002-03	80560.85	199.07	80754.95
2003-04	203049.39	179.01	230228.40
2004-05	288503.80	212.69	288716.49
2005-06	292544.83	298.00	292842.83
2006-07	330819.33	341.56	330160.89
2007-08	304472.12	405.33	304877.45
2008-09	465514.87	416.10	465930.97
2009-10	514227.66	432.78	514660.45

Growth Charts of LIC and Analysis

Year X	Business In India Y 1	Business outside India Y 2	Total business Y 3	U=X A/H	U^2	UY1	UY2	UY3
2003–04	203049.39	179.01	230228.40	-1	9	-609148.17	-537.03	-690685.20
2004-05	288503.80	212.69	288716.49	-2	4	-577007.60	-425.35	577432.98
2005-06	292544.83	298.00	292842.83	-3	1	292544.83	-298	292842.83
2006-07	330819.33	314.56	330160.89	0	0	0	0	0
2007-08	304472.12	405.33	304877.45	1	1	304472.12	405.33	304877.45
2008-09	465514.87	416.10	465930.97	2	4	931029.74	832.20	931861.94
2009-10	514227.66	432.78	514660.45	3	9	1542682.98	1298.34	1543981.40
	2399132.00	2285.47	2427417.50	0	28	1299484.27	1275.46	1219759.70





$Y = a+bX$

$\sum Y = na + b\sum X$

$\sum XY = a\sum X + b\sum X^2$

$Y = a+bu$

$\sum Y = na+b\sum U$

$\sum uY = a\sum u+b\sum u^2$

$\sum Y = na$

$a = \sum Y/n$

$\sum uY = b\sum u^2$

$b = \sum uY/\sum u^2$

1. Business of LIC in India ***2. Business outside India*** ***3. Total business of LIC***

a=∑Y/n *a=∑Y/n=2285.47/7 = 326.50* *a = ∑y/n =2427417.50 / 7 = 346733.93*

a=2399132.00/7 = 342733.14 *b = ∑uy / ∑u² = 1275.46/28 = 45.55B*

b = ∑uy/∑u² = 1219759.70 / 28 = 43562.85

b = ∑uY/∑u²=1299484.27/28 = 46410.15

y = a + b (X -2006) *Y = a+b (X – 2006)*

Y = a+b (X-2006) *= 326.50 + 45.55 (2014 -2006)*

= 346733.93 + 43562.85 (2014 – 2006)

Y = 342733.14+ 46410.15 (2014-2006) *=690.90 crores*

Y = 714014.35 crores *= 695276.73crores*

Interpretation: Anticipations beyond

Based on the middle year 2006 the Trend value of the year 2014 can be calculated using the Linear Function Y = a + bX, where a & b are constant. If we substitute the values in the Trend Line Equation, the expected business in India for the Year 2014 is RS 714014.35 crores, the expected business outside

India for the Year 2014 is RS 690.90crores, expected business in India for the Year 2014 is RS 695276.73 crores.

5. Concluding Remarks

Undauntedly, the insurance sector is heading for an astonishing growth in the times to come. Tracing the developments in the Indian insurance sector reveals the 360-degree turn witnessed over a period of almost 190 years. Insurance may be described as a social device to reduce or eliminate risk of life and property. Private sector also plays important role in this sector and tried to capture maximum shares in this sector. The private insurance joint ventures have collected the premium of Rs. 5355.25 crore with the investment of just Rs. 8,000 crore in eight years of liberalization. The private insurance players have significantly improving their market share when compared to 50 years Old Corporation (i.e. LIC). As per the figures compiled by IRDA, the Life Insurance Industry recorded a total premium underwritten of Rs. 51002.48 crore for the period under review of this, private players contributed to Rs. 5355.25 crore, accounting for 10 percent. Life Insurance Corporation of India (LIC), the public sector giant, continued to lead with a premium collection of Rs. 45902.24 crore, translates into a market share of 90 %. In terms of number of policies and schemes sold, private sector accounted for only 7.25% as compared to 92.75 % share of LIC. The ICICI Prudential topped among the private players in terms of premium collection. It recorded a premium of Rs. 364.9 crore followed by Max New York Life with Rs. 176.8 crore, Birla Sun Life with a premium of Rs. 170 crore, HDFC Standard with Rs. 132.7 crore. In case of private non-life insurance players that their market share raised to 14.13 % recording a growth of 70.75 % per annum, while the market share of public sector stood at 85.87 %, registering a marginal growth of 6.34 %. The overall market has recorded a growth of 12.32 per cent. Among the private non-life insurance players, ICICI Lombard topped the list with a premium collection of Rs.403.62 crore in one year period with a market share of 3.05 per cent and with an annual 131.6 per cent, followed by Bajaj Allianz with a premium of Rs.385.02 crore and 2.91 percent market share and Tata AIG with 300.49 crore premium and 2.27 per cent market share with an annual growth rate of 62.60 per cent. Recently banking sector has also moved towards insurance sector since they would get better dividends than the commission they would get by entering into partnerships with other major insurance market players. Union Bank, Federal Bank, Allahabad Bank, Bank of India, Karnataka Bank, Indian Overseas Bank, Bank of Maharashtra, Bank of Baroda, Punjab National Bank, and Dena Bank are planning to enter in this sector.

The above investigations reveal the nature of flourishing industry with several national and international players competitors revving up to capture good cake of financial bonanza. All this credits to timely reforms that help overcome the regulatory shackles and boost the Indian insurance sector to grow at geometric proportions in the next five year plan of 2010 - 2015. The government is also focusing on insurance as one of major sources for infrastructure development.

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