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Global Financial Crisis in the Life Insurance Sector in India

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Life insurance was started in India in 1818 by the newly formed the Oriental Life Insurance Company primarily by the Europeans from England to provide insurance to English widows. Though the periphery of such activities was subsequently extended, Indians were insured only scantly, and that too, at exorbitant premiums. Even after the establishment of the first Indian life insurance company, foreign insurance companies had dominance in this market viz. Bombay Mutual Life Assurance Society (BMLAS), in 1870. The main characteristic of such foreign companies was that they invested the proceeds of premium outside India so that Indian economy was not benefited thereby. In the informal sector this development had took place. In 1912, after the ratification of The Life Insurance Companies Act and The Provident Fund Act, development of insurance business in the formal sector took momentum. To ensure strict control over insurance business a more comprehensive legislation was introduced in India under the Life Insurance Act of 1938. To ensure strict control over insurance business, an effective check on large-scale frauds that had evolved in this business during the 1930's. The development in the insurance sector in India manifest with much malpractice, frauds, liquidation of many life insurance companies and large industrial houses and managing agencies were controlling the bulk of insurance business in India. A committee under the chairmanship of Sir Cowasji Jehangir was appointed by the Government of India in April 1945, to enquire into such the unwelcome developments which were detrimental to the development of the insurance sector in India. The committee subsequently recommended some important amendment in the existing Insurance Act and the same was introduced in the parliament in 1946. This Bill was passed in the parliament as the Insurance Act, 1950.

Life insurance business got a boost in India rightly from the eve of the planning era on account of its capacity to mobilize resources from the cross section of population and to channelising them in productive activities. At the end of 1956, 154 Indian life insurance companies, 16 non-Indian companies and 75 provident fund societies were providing life insurance policies in the country. The Government of India, however, nationalized these business units, and amalgamated them under Life Insurance Corporation of India (LICI) in 1956 with a view to utilising the then-emerging financial institutions in the successful implementation of Five Year Plans.

Though LICI thus grew amazingly in terms of business volume prior to 1999, it staggered in terms of geographical spread, especially in the countryside, as well as the number of lives coverage. Evidence indicates that its business had been only confined to more affluent sections of the society in big cities. The rural sector shared only around 18 per cent of its business in 2000. The Indian insurance market also fell short of the global standard. This is evident in the fact that the penetration level was only 1.39 per cent of GDP in India while it was 2.16 per cent in Malaysia, 2.65 per cent in Chile, 8.39 per cent in South Korea, 13.92 per cent in South Africa, and 10.30 per cent in the UK. India, however, scored ahead of China where the penetration level was 1.02 per cent in 1999. India's share in the global insurance market was also very meager in 1999. It was

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only 0.36 per cent, and ranked at 23. The scenario was slightly better for the global life insurance market where India's share was 0.43 per cent.

The year 1991, however, witnessed a paradigm shift in India's overall development strategy. There have been enormous impacts of these new economic policies on LICI. As a result, a Committee on Reforms in the insurance sector was set up in 1992 under the Chairmanship of R.N. Malhotra, which submitted its recommendations in 1994, was accepted in principle by the government and started implementing the recommendations since December 1999, thus heralding an era of liberalization in the country's insurance sector. In this direction, the intial steps were setting up of Insurance Regulatory and Development Authority (IRDA) and opening up of Insurance Business (life and general) to foreign capital up to 26 percent. In order to maximise productivity and minimise transaction cost in the insurance business, this sector of an economy was opened up. To bring a wider choice of products at lower prices to the consumers, larger coverage of population, better customer service, superior information technology, higher returns to the policyholders with the opening up of insurance sector.

Currently, there are 21 private life insurers are operating in the Indian life insurance market along with the only state own life insurer Life Insurance Corporation of India (LICI). There is little more than 800% increase by 22 numbers of insurers (including LICI) in India with the total volume of premium reached to Rs. 221,791 crore in 2007-2008 from Rs. 24,630 crore in the year 1999-2000 . Private life insurers are gaining the momentum to penetrate the market with their new products, services and the global knowledge of expertise in doing life business. This can be witnessed from their growing market share statistics which shows nearly 30 percent of the Market are in their hands at the end of 2008-09 financial years. Acceptability is on the rise though it is an urban phenomenon is the most important aspect. The prominent private players operating actively are ICICI Prudential Life (6.92%), Bajaj Allianz Life (4.79%), SBI Life (3.25%), HDFC Standard Life (2.50%), Birla Sun Life (2.06%), Reliance Life (2.22%), Max New York Life (1.73%), and TATA AIG Life Insurance Company (1.23%).

Financial Crisis and Impact on India

The effect of the sub-prime crisis, which started in the United States in late 2007, evolved as a financial crisis in US and later engulfed Europe and UK, was evident from the collapse of Bear Stearns. As the housing market continued to move in the opposite direction, a recession was on the cards. But the severe financial crisis evolved just after the collapse of investment banker Lehman Brothers. Since then the global financial crisis has deepened. According to the IMF, banks have suffered higher credit losses than the insurers. The impact of this financial crisis on the global life insurance industry is mixed. The direct impact of this crisis on life insurance has been observed only at those financial institutions which have other financial services. For example, American International Group (AIG) and FORTIS, offers not only insurance but also banking services. Majority of the losses made by AIG and Fortis were considerably from financial products other than insurance such as derivatives and banking activities. Though the impact of the present crisis in the financial market is limited due to the extensive diversification of investments by the insurers, India cannot afford to remain insulated from this due to the exposure of the financial institutions in the global financial market. The effect was first seen in India in the banking sector when ICICI Bank was reported to have investments in US treasury market. Later, RBI confirmed that the financial health of ICICI Bank is well enough to have faith in its operations. ICICI has a joint venture with Prudential in the life insurance sector in India. Similarly, AIG's recent financial crisis could have some considerable blow on its businesses in India as AIG has a joint venture in life insurance sector with the Tata Group. On the other hand Fortis has a joint venture with IDBI Bank in India. The insurance regulator IRDA assured the investors that their money is safe after US insurer AIG get the access of Fed Reserve's borrowing window. In India, domestic insurance companies do not have any exposure overseas due to the investment regulation of IRDA, which stops insurers from investing funds abroad.

In the Indian context, as the foreign life insurance players operate globally and they have the exposure of the global financial market, the performance of these companies will not solely depend upon the performance of the Indian economy. Therefore, any meltdown in the global financial arena will definitely affect the performance of these players. The collapse or the exits of these life insurance players would have severe social consequences due to the fact that millions of middle or lower middle class people in India buy the life insurance products not only to take care of themselves but for their dependants. For example, a person can opt for a policy to safe guard himself in his old age, or for the education of his son/daughter, or for the marriage of his daughter after a certain period of time. Therefore, the social cost of such failure or collapse would be more than the economic cost and the end sufferers will be the common policy holders.

Financial Crisis and Impact on Indian Life Insurance Business

Life insurance *Penetration* and life insurance *Density* are the standard measure of the development of life business or the consumption in an economy. There are other means of measuring the development of life insurance are available such as growth in life premiums, life insurance fund, number of new issued policies but penetration and the density are the internationally accepted standard measures. Let's find out the development made by India in this regard in the post financial crisis period in the life insurance sector.

Life insurance penetration is defined as the ratio of premium volume to Gross Domestic Product (GDP). It measures the relative importance of life insurance activity to the size of the economy. After the opening up of the life insurance sector in 2000, foreign players with their newly formed joint ventures started operating the huge untapped Indian market. With improved per capita income and increasing savings rate along with the availability of newer products of different insurers at competitive price, increases the consumption of life insurance products in India.

Life Insurance Density is defined as premiums per capita, that is, how much each individual or the inhabitant of a country spends on average on life insurance. It is the ratio of premium volume to population. After the opening up of the insurance sector in 2000, the per capita consumptions of life insurance increased from US $ 6.2 to US $ 40.4 at the end of March 2008. A sharp rise in the consumption level just after the liberalisation and privatisation of the life insurance sector in India. Again, Life Insurance Density has also witnessed the similar trend since 2008. Per capita spending on life insurance was US $ 40.4 in 2008 and the same improved very marginally at US $ 41.2 in 2009. The rate of growth of life insurance density (ratio of premium volume to population) in 2009 is only at 2% where as it was 21% in 2008 and 81% in 2007 respectively.

Conclusion and suggestions

The good news to all the market players is that the common people are aware of the life insurance products and its importance in their life. It is apparent from this study that the people are not aware of the very existence of an independent insurance regulatory authority (IRDA) and the role played by the IRDA in the insurance market to safeguard the interest of policy holders along with the development of the life insurance industry in India. The present initiatives taken by the IRDA, such as programmes in radio and television in regional languages, publicity campaign, 24 hour toll free call numbers to assist investors, grievances redressal cells, seminars and workshops, notice under Right to Information Act, are not enough for the industry where absolute number of people outside the cover of life insurance umbrella is still too high. Here, we need a collective measure of IRDA and all the life insurers to educate people about the structure of the life insurance industry and the viability of the companies operating and how IRDA works to protect the interest of individual investors.

We recommend the introduction of service based commission to the life insurance agents for entire policy tenure, i.e., agents would be entitled to receive commission from a policy if the policy holder is satisfied with the services provided by the insurance agents. There should also be a provision before the policy holder to change the agent if he\she is not satisfied with the present life insurance agents or even to there should be a minimum penalty for not rendering proper services to the existing policy holders.

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