

Importance and Challenges of Life Insurance in India

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Abstract

Life Insurance plays a pivotal role in human's life. Though the insurance industry is in existence since long, level of awareness towards the life insurance is negligible. The study tries to understand the awareness of the people towards life insurance products after the privatization of the insurance sector. This study also makes emphasis on importance of life insurance and challenges faced by life insurance companies in future perspective. 80 per cent people out of hundred have heard life insurance; there is a lack of knowledge about the various aspects of insurance policy. Thus, the government takes necessary steps to protect the people.

Keywords: *Concept, History, Beginning, Importance, Challenges.*

History of Life Insurance:

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era - past few centuries - yet its beginnings date back almost 6000 years.

Life insurance in its modern form comes to India from England in the year 1818. The oriental life insurance company was started in Calcutta by Europeans as first life insurance company, later with the efforts of eminent people like Baba Muttylal, the foreign life insurance company started insuring Indian lives.

The Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. Starting as Indian enterprise with highly patriotic motives, insurance companies came

into existence to carry the message of insurance and social security through insurance to various sectors of society. Bharat Insurance Company (1896) was also one of such companies inspired by nationalism. The Swadeshi movement of 1905-1907 gave rise to more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period.

Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage.

National Insurance Company Ltd, founded in 1906, is the oldest existing insurance company in India. Earlier, the Insurance sector had only two state insurers - Life Insurers i.e. Life Insurance Corporation of India (LIC), and General Insurers i.e. General Insurance Corporation of India (GIC). In December 2000, these subsidiaries were de-linked from parent company and were declared independent insurance companies: Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited and United India Insurance Company Limited.

The first two decades of the twentieth century saw lot of growth in insurance business. From 44 companies with total business-in-force as Rs.22.44 Crore, it rose to 176 companies with total business-in-force as Rs.298 Crore in 1938. During the mushrooming of insurance companies many financially unsound concerns were also floated which failed miserably. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business. The demand for nationalization of life insurance industry was made repeatedly in the past but it gathered momentum in 1944 when a bill to amend the Life Insurance.

The Beginnings of Life Insurance

Life Insurance is the fastest growing sector in India since 2000 as Government allowed Private players and FDI up to 26% and recently Cabinet approved a proposal to increase it to 49%. Life Insurance in India was nationalized by incorporating Life Insurance Corporation (LIC) in 1956. All private life insurance companies at that time were taken over by LIC. In 1993, the Government of India appointed RN Malhotra Committee to lay down a road map for privatization of the life insurance sector. While the committee submitted its report in 1994, it took another six years before the enabling legislation was passed in the year 2000, legislating the *Insurance Act* of 1938 and legislating the *Insurance Regulatory and Development Authority Act* of 2000. The same year the newly appointed insurance regulator - Insurance Regulatory and Development Authority IRDA—started issuing licenses to private life insurers.

Life assurance can be traced back to the sixteenth century, when shot – term assurance were usually affected as collateral security for loans, indeed, the first life assurance were marine insurance underwriters; policies often being written on the life of a merchant sailing with his goods. The first recorded life policy was in 1583, which was subject to an underwriters of England on June 18, 1583, for “12 months” for \$382.6s.8d. On the life of fine William Gigots. “Through, the policy concluded with the words, “God send the said William Gibbons

health and life”, he died on may 9, 1584. The underwriters contended that the policy period of “12 months” related to lunar months, which had expired. But the court ruled out that payment must be made and the underwriter paid the sum assumed. Besides, in the sixteenth and seventeenth centuries, evidences of the existence of short – term policies are available, which cover the risk of death within a limited period only. They were particularly used for merchants and others on voyages or on the lives of debtors as security against loan. In the seventeenth and eighteenth centuries mutual assurance the Amicable Society, the Equitable Life Assurance Society and Westminster Society have and important place, Subsequently Life Assurance Act. 1774 and Life Assurance Companies Act, 1870 were passed to established the business.

In India the first Insurance Act was passed in 1912, which was replaced by a comprehensive Insurance Act of 1938. This Act was amended in 1950. Finally, the Government of India nationalized the entire life insurance business in the year 1956 by passing the life Insurance corporation Act, 1956. Thus at present the entire the insurance boniness in being transacted by the Life Insurance Corporation of India, which is popularly known as LIC. The Corporation is an autonomous body and run on sound business principles. Its central offices are located in Bombay and there are Zonal, Divisional, Branch and sub-offices both in India and aboard.

Thus, we see that in last 2 years a large pool of private as well as other financial Institution have come forward to provide this very service of insurance like BAJAJ ALLIANZ, ICICI PRUDENTIAL, BIRLA SUN LIFE INSURANCE, SBI LIFE INSURANCE, HDFC STANDARD LIFE INSURANCE etc. the share of private life insurance players has also increased marginally

The Milestones in Indian Insurance Sector:

Some of the important milestones in the LIFE insurance business in India are:

1. 1818: Oriental Life Insurance Company, the first life insurance company on Indian soil started functioning.
2. 1870: Bombay Mutual Life Assurance Society, the first Indian life insurance company started its business.
3. 1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.
4. 1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.
5. 1938: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.
6. 1956: 245 Indian and foreign insurers and provident societies are taken over by the central government and nationalised. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 Crore from the Government of India.
7. The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British.

Some of the important milestones in the GENERAL insurance business in India are:

1. 1907: The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance business.
2. 1957: General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.
3. 1968: The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.
4. 1972: The General Insurance Business (Nationalisation) Act, 1972 nationalised the general insurance business in India with effect from 1st January 1973.

What Is an Insurance?

Insurance

Insurance is a legal contract in which an individual pays the insurance company and receives reimbursement against losses from an insurance company.

Insurance for Women:

Prior to nationalisation (1956), many private insurance companies would offer insurance to female lives with some extra premium or on restrictive conditions. However, after nationalisation of life insurance, the terms under which life insurance is granted to female lives have been reviewed from time-to-time.

At present, women who work and earn an income are treated at par with men. In other cases, a restrictive clause is imposed, only if the age of the female is up to 30 years and if she does not have an income attracting Income Tax.

Medical and Non-Medical Schemes

Life insurance is normally offered after a medical examination of the life to be assured. However, to facilitate greater spread of insurance and also to avoid inconvenience, LIC has been extending insurance cover without any medical examination, subject to certain conditions.

With Profit and Without Profit Plans

An insurance policy can be 'with' or 'without' profit. In the former, bonuses disclosed, if any, after periodical valuations are allotted to the policy and are payable along with the contracted amount.

In 'without' profit plan the contracted amount is paid without any addition. The premium rate charged for a 'with' profit policy is therefore higher than for a 'without' profit policy.

Key man Insurance

Key man insurance is taken by a business firm on the life of key employee(s) to protect the firm against

financial losses, which may occur due to the premature demise of key man insurance.

Policy

The documentation which contain the term and condition of the insurance contract is termed as the insurance policy.

Insurer

The party, which agrees to pay money on the mishappening, is known as insure. Here insures identify the insurance companies.

Insured

The party, who seeks protection against a particular risk and is entitled to receive money from the insurer in the event of the happening of the stated contingency, is known as insured.

Insured Amount

The amount for which the risk is insured is called the insured amount.

Premium

The amount, which is paid by the insured to, the insurer as a consideration of the insurance contract is know as premium. In simple work premium is the price of insurance.

Life Insured

It means the person on the duration of whose life the insurance depends.

Insurable Interest

An insurable interest is an interest of such a nature that should the event insured against takes place; the insured might suffer financial loss. If the happening of the event insured against does not clause financial loss to the assured.

The Utmost Good Faith

All contracts of insurance are contract of the utmost good faith that is they require that highest degree of good faith on the part of both the insured and the insurer.

Indemnity

Indemnity is the compensation for loss.

Hazard

Hazard my be defined as a condition that may create, decrease or increase the chance of loss from a given peril.

Risk

Risk means uncertainty loss and not the loss itself or the cause of loss.

List of Life Insurers (as of November 2011)

Apart from Life Insurance Corporation, the public sector life insurer, there are 23 other private sector life insurers, most of them joint ventures between Indian groups and global insurance giants.

Life Insurer in Public Sector

1. Life Insurance Corporation of India

Life Insurers in Private Sector

1. SBI Life Insurance
2. PNB Metlife India Life Insurance
3. ICICI Prudential Life Insurance
4. Bajaj Allianz Life
5. Max Life Insurance
6. Sahara Life Insurance
7. Tata AIA Life
8. HDFC Life
9. Birla Sun Life Insurance
10. Kotak Life Insurance
11. Life Insurance Corporation of India
12. Aviva Life Insurance
13. Reliance Life Insurance Company Limited - Formerly known as AMP Sanmar LIC
14. ING Vysya Life Insurance
15. Shriram Life Insurance
16. Bharti AXA Life Insurance Co Ltd
17. Future Generali Life Insurance Co Ltd
18. IDBI Fedaral Life Insurance
19. AEGON Religare Life Insurance
20. DLF Pramerica Life Insurance

21. CANARA HSBC Oriental Bank of
 Commerce
 22. Star Union Dia-ichi Life Insurance Co. Ltd

23. Edelweiss Tokio Life Insurance Company
 Ltd

GLOBAL MARKET SHARE

First Year Premium Underwritten by Life Insurers for the Period Ended March,2006(Summary ranks on market share)

| Rank | Insurer | Premium | | Percentage | | |
|----------|--------------------------------------|----------------|----------------|----------------------|--------------------------------|------------------------|
| | | Current Yr | Prev yr | % Growth over Pre Yr | Industry Mkt Share (LIC + Pvt) | Mkt share in Pvt share |
| | | Upto mar,06 | Upto mar, 05 | FY 05-06 | FY 05-06 | FY 05-06 |
| <u>1</u> | BAJAJ Allianz | 271,562 | 86,002 | 216 | 7.56 | 26.5 |
| <u>2</u> | ICICI Prudential | 263,748 | 158,408 | 66 | 7.35 | 25.7 |
| <u>3</u> | HDFC Standard | 102,894 | 48,615 | 112 | 2.9 | 10.0 |
| <u>4</u> | SBI Life | 82,852 | 48,294 | 72 | 2.3 | 8.1 |
| <u>5</u> | Birla Sunlife | 67,810 | 62,128 | 9 | 1.9 | 6.6 |
| <u>6</u> | Tata AIG | 46,348 | 30,022 | 54 | 1.3 | 4.5 |
| <u>7</u> | Max New York | 44,348 | 22,469 | 97 | 1.2 | 4.3 |
| <u>8</u> | Aviva | 40,754 | 19,229 | 112 | 1.1 | 4.0 |
| <u>9</u> | Kotak Mahindra Old Muthal | 39,754 | 37,475 | 6 | 1.1 | 3.9 |

| | | | | | | |
|-----------|---------------|-----------|-----------|-----|------|-----|
| <u>10</u> | ING Vyasya | 28,408 | 28,162 | 1 | 0.8 | 2.8 |
| <u>11</u> | Reliance Life | 19,344 | 9,118 | 112 | 0.5 | 1.9 |
| <u>12</u> | Met Life | 14,263 | 5,649 | 152 | 0.4 | 1.4 |
| <u>13</u> | Sahara Life | 2,182 | 167 | | 0.1 | 0.2 |
| <u>14</u> | Shriram Life | 1,031 | 0 | | 0.0 | 0.1 |
| | LIC | 2,564,519 | 2,104,490 | 22 | 71.4 | |

WHY LIFE INSURANCE?

| INSTRUMENT | Safety | Liquidity | Post tax return | Tax Efficiency | Life Cover |
|------------------------------|----------------|----------------|------------------|----------------|-------------|
| Provident Fund | High | Low | Good | Good | None |
| Shares | Low | Average | Uncertain | Low | None |
| KVP's, NSC's | High | Low | Average | Low | None |
| Bonds, Fixed Deposits | Average | Average | Low | Low | None |
| Mutual Funds | Average | High | Uncertain | Average | None |
| Postal Saving Schemes | High | Low | Average | Average | None |
| LIFE INSURANCE | HIGH | LOW | GOOD | HIGH | YES |

Kinds of Life Insurance Policies

- ❖ Whole Life Policy
- ❖ Endowment policy
- ❖ Term Policy
- ❖ Annuity Policy

Whole Life Policy

As the name suggests, whole life assurance policy lasts for the whole of the assured's life, the sum being payable at death only. In other words, whole life insurance is a type of life insurance contract under which the policyholder is covered for his entire life.

Whole Life Policy Are

- ❖ Ordinary Whole Life Policy
- ❖ Limited payment Whole Life Policy
- ❖ Single Premium Whole Life Policy
- ❖ Special Whole Life Policy
- ❖ Convertible Whole Life Policy

Endowment policy

Endowment insurance is a type of life insurance contract, which provides for the sum assured to be paid either at death or after a fixed number of years. Whichever comes first? The assured when affecting a policy selects the number of years. Thus, under this plan the company promises to pay a stated amount of money to the beneficiary at one. If the insured dies during the life of the policy (called the endowment period) or to the insured himself if he survives up to the end of the endowment period. In other words, an endowment policy provides for the payment of the insured amount either on death or on the attainment of a certain age, whichever is earlier. Suppose, a man takes an endowment policy for 20 years or even after a few weeks or days of taking back the policy, the sum assured becomes payable to his dependents. As against this if he survives this period, the policy "matures" and he will himself receive the payment of the sum assured on the expiry of 20 years.

The Endowment Policies Are

- ❖ Ordinary Endowment policy
- ❖ Pure Endowment policy
- ❖ Double Endowment policy

- ❖ Optional Endowment policy
- ❖ Anticipated Endowment policy
- ❖ Educational Endowment policy etc.

Term Insurance Policy

A term insurance policy is the oldest form of the policy. Here the insurer makes the payments only if the insured dies within the "term" of the policy of specified period. In other words it is conflicts between the insured & the insurer whereby he company promise pay the face amount of the policy to a third party if the insured die before a certain or age however if insured doesn't die during the specified time the contract expired & is treated a cancelled the insurer pay nothing on the policy. This contract run only for a temporary specified period of time & that a little or no cash value accumulated as saving or emergency fund for the policyholder. The policy may be written for assured a period of one year & may be issued for longer period 5,10,20 years. This is plan of special interest to those who need extra protection for a short duration like businessmen on journey, for as temporary cover to secure as an outstanding debt.

Term Insurance Policies Are

- ❖ Ordinary Policy
- ❖ Convertible Policy
- ❖ Decreasing Policy
- ❖ Renewable term Policy
- ❖ Yearly Renewable Policy

Annuity Contracts

A part from the various life insurance policies there are various annuities, which are issued by life insurance companies. Strictly speaking, annuities are not contracts of life assurance but are a form of pension, provide by the annuitants from their own savings. Annuity has been defined as a contract whereby the insurer in return for a certain sum of money paid in a lump sum or by installments agrees to pay the annuitant as annual amount (an annuity) either for specified period or for so long as annuitant is alive, as may be determined by the contract of annuity. The person during whose life the annuity is paid is called the annuitant while the amount charged

for benefits is not ordinarily called premium, but the purchase price. The annuity is the specific amount festinated to be paid yearly to a designated person.

Professor John H. Magee has defended annuity as “a periodic payment to commence at a stated or a stated or a contingent date and to be continued to a commence at a contingent date and to be continued to a designated person or persons for a fixed period or to be continued to a designated to a designated person or persons for a fixed period or for the life or lives of the person or persons entitled to receive payment”.

Types of Annuity Contracts

- ❖ Annuity of life
- ❖ Annuity certain
- ❖ Guaranteed Annuity
- ❖ Installment Refund
- ❖ Cash Refund
- ❖ Cash Refund Annuity
- ❖ Retirement Annuity etc.

Future Challenges

- ❖ To be one of the top private life insurance in terms of new business premium and profitability
- ❖ Achieve a minimum premium target of Rs.8500 crores (with less than 30% Single premium)
- ❖ Improve service at all levels operations/finance/human resource.
- ❖ Ensure we retain our staff who are our key resource.
- ❖ Appraisals/variable pay/salary increases/bonus payouts.

Conclusion

This study surveyed that the only about 20% people has their life insurance in this country so it may be a great career option for the public who want to bring their life from an ordinary to extra ordinary life. So it is very nice to see that the people know that the Life Insurance Companies is giving the opportunity to the public that not only giving a great career but also a

chance to enhance their personality as a gentle human.

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